Austria	Sch 18	Indonesia	Rp 2500	Portugal	Esc 85
Bahrain	Din 0.650	Italy	L 1300	S. Arabia	Rls 5.00
Belgium	Fr 38	Japan	Y 250	Singapore	S$4.10
Canada	C$1.00	Jordan	Fils 500	Spain	Pta 115
Cyprus	C£0.60	Kuwait	Fils 500	Sri Lanka	Rup 15
Denmark	Dkr 7.25	Lebanon	LL 6.00	Sweden	Skr 6.50
Egypt	E£1.00	Luxembourg	LFr 38	Switzerland	SFr 2.20
Finland	Fmk 6.00	Malaysia	Rgt 4.25	Taiwan	NT$65
France	Fr 6.00	Mexico	Pes 300	Thailand	Bt 30
Germany	DM 2.20	Morocco	Dh 6.00	Tunisia	Din 0.625
Greece	Dr 70	Netherlands	Fl 2.50	Turkey	L 215
Hong Kong	HK$12	Norway	Kr 7.00	U.A.E.	Dh 6.50
India	Rup 15	Philippines	Pes 20	U.S.A.	$1.50

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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EEC ministers draw farm prices battle lines, Page 2

South Africa death toll rises as mobs attack black councillors

BY ANTHONY ROBINSON IN JOHANNESBURG

THE DEATH toll in a week of violence in the black townships of the Eastern Cape Province rose at the weekend in horrific scenes of mob violence directed against black local councillors and policemen.

Gangs of youths brandishing sticks, shovels and knives roamed the townships of Langa and Kwanobuhle on the outskirts of the industrial town of Uitenhage, and a pall of smoke drifted over the townships from burning homes and looted stores.

Special police and army units have been drafted in to draw a cordon around the townships while the white inhabitants of Uitenhage closest to the Langa township are reported to have been issued with two-way radios by the police. Unconfirmed eyewitness accounts tell of armed white vigilante patrols in white areas closest to the violence.

At least 80 people have now lost their lives in unrest in the Eastern Cape and townships in the Transvaal and other areas over the past month, including 19 who were shot by police on the 25th anniversary of the Sharpeville massacre last Thursday and at least 10 at the weekend.

The toll is now greater than the 69 who lost their lives in the original Sharpeville massacre and the violence is continuing.

A large crowd turned up in the township of Kwanobuhle for the funeral of six blacks killed at the beginning of this latest outburst of violence but police are reported to have kept a low profile and no violent incidents were reported.

The funerals were to have taken place last Thursday but were banned by a local magistrate. The message did not get through to many of the local inhabitants and it was that failure of communication that contributed to the fatal encounter with the police which led to the 19 deaths on the Sharpeville anniversary. The Government has set up an official inquiry and opposition figures have called for the resignation of Mr Louis Le Grange, the Minister of Law and Order.

With the townships virtually sealed off by police, black anger and frustration has been directed at those blacks seen as collaborators with the Government or police informers. The most horrific incident took place on Saturday morning when a crowd of youths set fire to the funeral parlour owned by Mr T. B. Kinikini, a Kwanobuhle local black councillor.

Three people, including the councillor and his 18-year-old son, climbed out of the back window of the burning building but were seized and hacked to death by the irate mob. Their bodies were then set alight and jubilant mobs danced around, beating the corpses with sticks and bricks. The charred bodies of two other men were found later near by.

Black policemen and their families living in the townships have been evacuated but their houses have been the targets of fire bombs and looting. Animosity against the police has been fuelled by reports that the authorities have drafted in Zulu policemen into the predominantly Xhosa-speaking townships, adding a further ethnic element into the white-black confrontation.

Violence has not been restricted to the Eastern Cape as reports of petrol bombings, stonings and unrest flooded in over the weekend from townships in many parts of the country. In the latest of a lengthy list of attacks on black councillors, two hand grenades were thrown at the house of Mr Edward Kunene, the recently appointed mayor of Soweto, the 2m strong black township on the edges of Johannesburg, and similar incidents were reported from other townships in the Vaal triangle, Natal and the Orange Free State.

In total, over 240 blacks have lost their lives through police shootings, arson and violent internecine political conflict between various black political groups since the Vaal townships erupted at the beginning of September in protest against rent rises, bad schooling and other grievances, including the new tricameral constitution, which excludes blacks from power.

The Government is trying to portray the violence as an unfortunate side-effect of its policy of cautiously reforming the apartheid system. But with inflation and unemployment at dangerous levels, its attempts to attract moderate blacks, coloureds and Indians on to its side without offering power-sharing to blacks or the abolition of the hated pass laws and other apartheid legislation has exposed moderate blacks to great personal risk. It has also made every black township a potential tinderbox.

World news

Iraqi air strikes hit two vessels

Iraq resumed air strikes against Iranian oil traffic, attacking two vessels – one on the heavily fortified Kharg Island terminal.

Iran earlier issued a statement saying that it would retaliate "with full force" if Iraq attacked any Iranian towns or merchant ships in the Gulf.

The vessels struck were the Italian supertanker Volere and the Maltese-owned Eastern Star.

On the northern front, Iraq said it launched lightening attacks and captured two mountain peaks inside Iran. Page 18

Soviet defection

The Indian Government confirmed that the missing Soviet diplomat to New Delhi, Igor Gheja, has defected to the U.S. and has been granted political asylum.

Beirut clashes

Moslem militia and army units traded machinegun fire and rocket-propelled grenades in the heaviest clashes for months on Beirut's "green line" battlefront.

Stormy Greek vote

Angry scenes developed in the Greek parliament during the second round of voting for a new president of the republic. The voting was inconclusive. Page 2

General killed

Retired Salvadorean general Jose Alberto Medrano was killed by gunmen in San Salvador. He had been accused of human rights abuses during his career but was never charged.

Italian bribe charge

The chairman of Milan's underground railway system, Antonio Natali, was arrested on charges of taking bribes from a local construction company.

Danish lockouts

Widespread strikes and lockouts hit Denmark as 300,000 workers stopped work in a dispute which threatens fuel supplies, power stations and manufacturing industry. Page 2

Torpedo boat talks

China and South Korea started negotiations for the return of a Chinese torpedo boat and 13 crew from South Korea. The boat was towed to Kusan after what the Seoul Government described as a "shooting melee" aboard the craft in which six crewmen died. Page 3

Ethiopian austerity

Famine-wracked Ethiopia has tightened petrol rationing, banned private car imports and will allow only essential vehicles to travel on Sundays.

Bolivia strike ends

The Bolivian Workers' Confederation ended a 16-day general strike after the Government offered to raise minimum wages by 350 per cent.

Portugal assassins

Gunmen killed Portuguese industrialist Alexandre Souto inside the International Trade Fair building in Lisbon.

Ferry disaster

Rescue workers recovered 23 bodies after a ferry capsized near Daccar, Bangladesh and searched for more than 200 other people feared drowned.

Democracy promise

Pakistan's new Prime Minister, Mohammad Khan Junejo, promised to work for a restoration of democracy. Page 3

Albanian visit

A French government minister is to pay an official visit to Albania in May – the first such visit to the Balkan state for more than 40 years.

Business summary

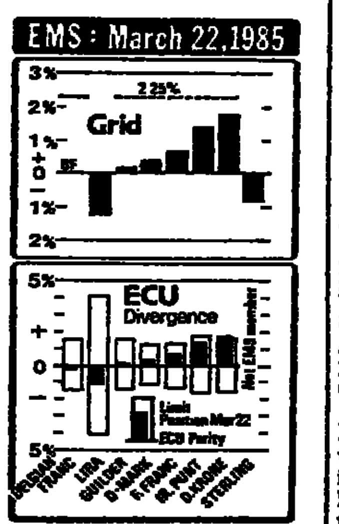
U.S. 'will achieve growth target'

THE U.S. will achieve economic growth of around 4 per cent this year despite disappointingly low estimates for the first quarter, according to Mr Donald Regan, White House chief of staff.

Mr Regan, former Secretary of the Treasury, pointed out that last week's "flash" estimate of 2.1 per cent growth by the Commerce Department covered only January and February, and he expected the figure for the full quarter to be revised to 3 per cent or more.

PAN AMERICAN, the U.S. airline, is on the verge of settling its longest strike – a 24-day walkout by mechanics and baggage handlers – which has grounded more than half its fleet. Page 18

EUROPEAN Monetary System: Attention remained focused on the dollar last week and its sharp decline.



The Belgian franc replaced the Dutch guilder as the weakest member bound by the 2¼ per cent limit, but was still strong enough to be trading close to the mid-point between its upper and lower intervention limits. The Italian lira, which enjoys a wider margin of allowable divergence, was somewhat weaker from the previous week but remained comfortably within its divergence limit.

The Danish krone was the strongest currency and was slightly outside its upper divergence limit, a point which usually activates an unwritten agreement between central banks to keep their respective currencies within agreed limits.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO share prices closed slightly lower on Saturday, pushing the Nikkei-Dow market average down 4.65 to 12,537.95, as weakness on Wall Street and uncertainty over the dollar held back investors.

U.S. officials have warned Japan that they might be forced to retaliate unless Tokyo relaxes trade barriers. Page 4

IRAQ has signed a FFr 500m ($50.5m) contract with the French state-owned Compagnie Générale d'Electricité to aid improvement of the country's electricity supply infrastructure. Page 4

TEXAS Commerce Bancshares, one of few U.S. banks to have escaped the effect of the slump in the U.S. energy industry until now, has had its credit ratings cut because of higher bad debt provisions. Page 22

ARTHUR ANDERSEN, U.S. accounting firm, has lost another court case over the collapse of Drysdale Securities, a government bond dealer, and must pay Manufacturers Hanover $17m. Page 22

HUDSON'S BAY COMPANY, Canadian retail, property and fur trading group, suffered a C$107.4m (U.S.$77m) loss last year compared with a deficit before an extraordinary gain of C$17.9m in 1983. Page 22

Nicaragua row with U.S. to dominate IDB meeting

BY PETER MONTAGNON IN VIENNA

THE BITTER row between Nicaragua and the U.S. over the latter's efforts to block Inter-American Development Bank (IDB) loans to the Sandinista Government in Managua threatens to dominate this year's IDB annual meeting which opens in Vienna today.

Sr Joaquin Cuadra Chamorro, Nicaragua's central bank president, will this afternoon call on the meeting to oppose what he terms the politicisation of the IDB as a result of the U.S. action.

Nicaragua has begun an intensive lobbying effort with other Latin American member countries to persuade them to reaffirm publicly their commitment to the bank's charter establishing it as a non-political organisation.

Nicaragua was recently forced to withdraw a $58m loan request from the IDB after the intervention of Mr George Shultz, U.S. Secretary of State, amid scarcely veiled threats that the U.S. would withdraw financial support for the bank if the loan went ahead.

Mr Shultz's intervention, in a letter to Sr Antonio Ortiz Mena, the IDB president, is regarded as particularly controversial among delegates because it is the Treasury rather than the State Department which is normally responsible for IDB affairs.

"It is a slap in the face for the IDB administration and its executive board telling them they do not know how to manage the bank," Sr Cuadra said yesterday.

The loan, which is to finance private sector agriculture, had already been approved by the bank's technical staff before the U.S. intervention.

In his letter to the IDB, Mr Shultz argues that the Sandinista Government could divert the loan proceeds "to finance Nicaragua's aggression against its neighbours, who are members in good standing of the bank."

Saudi-Arabia's National Commercial Bank is coming under increasing pressure from other international lenders to contribute its share of a $925m credit being sought by the Philippines as part of its debt rescue package. **Page 19**

Nicaragua was not a creditworthy country, $7m in arrears with the International Monetary Fund and World Bank, he said.

U.S. public opinion would be offended if the loan were approved and this would make it "even more difficult" to persuade Congress to vote funds for the IDB.

This is a very sensitive point for the IDB as the U.S. is now seriously behind with its contributions to the bank's capital, resulting in a $800m shortfall in callable capital and delays on loans to Latin American member countries.

Although the IDB will not start seeking a fresh capital increase, to become effective in 1987, until later this year it is clearly anxious for the U.S. shortfall to be made up so that normal business can resume.

In its annual report published yesterday the IDB said that growth in Latin America resumed at a rate of 2 per cent last year, but it warned that living standards had not recovered from the recession and satisfactory growth rates would not be achieved without a resurgence in investment.

Last year, the bank approved loans totalling $3.57bn, up 17.1 per cent on 1983, while borrowing in world capital markets also rose to a record $1.7bn from $1.41bn.

IFC to launch first floater

By Our Euromarkets Correspondent

THE INTERNATIONAL Finance Corporation (IFC), an affiliate of the World Bank, is stepping into the Eurobond issuing business for the first time with the announcement of a $50m floating-rate note for Bladex, the Panama-based Latin American export finance bank.

Sir William Ryrie, executive vice-president of the IFC, said in Washington at the weekend that it would lead-manage the forthcoming issue alongside Goldman Sachs, the U.S. investment house. The IFC is also to act as an underwriter for an amount expected to be $25m.

Unlike its World Bank parent, the IFC concentrates on stimulating financial flows to the private sector in the developing world. Proposals for it to lead bond issues have been under consideration since 1982, but the debt crisis rendered the markets unreceptive.

Its board has decided to go ahead with the Bladex issue as part of an effort to help to boost Latin American exports, which Sir William said was "a crucial ingredient in the ultimate solution of the developing-country debt problem."

Bladex, in which the IFC has a 7.3 per cent stake, last year financed $1bn of Latin American exports. Other shareholders include Latin American governments and commercial banks and international banks including Lloyds Bank of the UK.

Bankers say that throughout the debt crisis, Bladex has remained fully solvent, but lack of confidence in the region has forced its balance sheet to contract to some $600m from a peak of around $750m. Proceeds of the note issue will help reverse this trend and allow it to step up its activities again.

With investors still concerned about Latin America's economic prospects, however, the launch of the new bond issue has been slow. The IFC still has to complete its group of lead managers and underwriters. Only when that is done will the full terms of the issue be disclosed.

Paris will unveil further plans to liberalise bourse

BY PAUL BETTS IN PARIS

THE FRENCH Government will this week announce plans to modernise the Paris financial markets and stimulate more competition within the stockbroking profession and the banking system.

The latest measures are part of a gradual deregulation of the country's financial sector aimed at enabling it to compete with other international financial markets, like London and New York, which have been undergoing major evolutionary changes.

The recent introduction of certificates of deposit (CDs) and the decision earlier this month to set up a financial futures market in Paris later this year, are to be followed by a liberalisation of the rules on bond and share commissions. The authorities also want to encourage the development of intermediary agents on the bourse to help place large buy or sell orders for securities.

French officials also indicated at the weekend that M Pierre Beregovoy, the French Finance and Economy Minister, envisaged the introduction in coming weeks of reforms in the domestic mortgage market.

Among the measures the Socialist Government will introduce this week are incentives to give borrowers in the domestic bond market greater freedom to choose their lead managers and banking syndicates. In the past, borrowers have been reluctant to put their offerings up to bids and have traditionally entrusted them to their regular lead banks.

There are already tangible signs of a changing and more competitive trend, with borrowers like the French national railways putting future bond issues out to tender with a number of banks.

The Government will also further enlarge access to the so-called small bond market (petit marché) for large borrowers and institutional investors. Bonds issued on the petit marché do not need prior authorisation from the monetary authorities, but there is a ceiling on the amount an individual borrower can raise. The Government raised this limit from FFr 200m ($19.5m) to FFr 500m a year in 1984 and is now proposing to increase the ceiling to FFr 1bn a year from 1986. The petit marché currently accounts for about 10 per cent of all French bond trading.

The Government also plans to lift all existing restrictions on the grey market – the trading which is carried out between the announcement of a bond issue and its effective introduction.

Commissions on bond issues in the private corporate sector will now be able to be fixed freely. For public sector issues the commission will now be set in a range of between 1.3 per cent and 1.7 per cent compared with the current 1.75 per cent fixed commission. The range for government issues will be 0.7 per cent - 0.9 per cent.

In the equity market the Government plans to introduce the concept of intermediary agents to help make the market more liquid for large share transactions. Steps will also be taken to speed up and

Continued on Page 18

Rapid deal ruled out over future of Ulster

By Brendan Keenan in Dublin

POLITICIANS on both sides of the Irish Sea yesterday dismissed suggestions of an early agreement between the British and Irish governments on new political and security arrangements in Northern Ireland. There was also angry Unionist reaction to a British newspaper report which suggested that the governments might soon be able to sign a joint declaration on Northern Ireland.

There is no doubt that a serious effort is under way in London and Dublin to find some area of agreement, and that this has the backing of Mrs Margaret Thatcher, the UK Prime Minister. It was reinforced by the visit to Dublin last week of Sir Geoffrey Howe, the British Foreign Secretary and Mr Douglas Hurd, the Northern Ireland Secretary, and the decision to appoint Mr Chris Patten, a junior minister at the Northern Ireland office, to initiate a round of discussions with the Ulster parties. The aim is to explore areas of agreement on internal political structures for the province, in parallel with talks on an enhanced role for the Irish Republic.

Substantial areas of disagreement remain and may yet prevent a settlement. Dr Garret FitzGerald, the Irish Prime Minister, speaking in London on Friday, mentioned the possibility of failure for the first time since the present round of talks began almost a year ago.

He warned that the attempt to devise a "novel political structure" for Northern Ireland could not be said to have succeeded until all obsta-

Continued on Page 18

Grand Met puts second U.S. tobacco company up for sale

BY STEFAN WAGSTYL

GRAND METROPOLITAN, the UK hotels, brewing and foods group, has put up for sale Pinkerton Tobacco, its U.S. chewing and pipe tobacco business. London business analysts estimate it could fetch at least $100m.

Pinkerton is the second Grand Met U.S. tobacco company to come on to the market – the group is also trying to sell cigarette-maker Liggett and Myers, after a $325m management buy-out collapsed last year.

Both companies were acquired in 1980 when Grand Met bought its parent company, the Liggett group, which has interests in soft drinks and pet food as well as tobacco, in its first significant U.S. acquisition.

After more recent acquisitions of U.S. health care services companies, however, Grand Met has made it clear that it sees better prospects in the rapidly growing health care market than in the tobacco industry. It has also recognised that it could prove difficult to operate simultaneously in both markets.

The company said yesterday that the Pinkerton business did not fit in with its "long-term strategic objectives" – the same comment it made last year about Liggett and Myers.

The first reaction in London business circles was that Pinkerton might prove easier to sell than Liggett and Myers, which is suffering from a price war in non-branded cigarettes.

Pinkerton, based in Owensboro, Kentucky, made operating profits of $18.4m from sales of $100m in the year to last September. Its top brand, Red Man, is said by the company to be the largest-selling looseleaf chewing tobacco in the U.S.

While sales of its pipe tobacco are declining, Pinkerton is investing in launching new products notably wet and dry snuff – and in building up a field sales force.

Mr Robert B. Seidensticker, Pinkerton's president, said that since the company's plans required "major strategic commitment," a new owner "would be in the best interests of all concerned."

Grand Met, which has appointed New York investment bank Morgan Stanley to advise on the disposal, said that it had no particular potential buyer in mind for Pinkerton.

The group remains committed to expanding in North America, where sales have grown from 7 per cent of the group total in 1980 to nearly 31 per cent last year.

CONTENTS

OVERSEAS NEWS

Danes await measures to halt strike

By Hilary Barnes in Copenhagen

THE DANISH coalition government is expected shortly to present a package of measures to resolve the strike which began yesterday, bringing a halt to industrial production, air traffic, the docks, shipping and the distribution of oil, petrol and food supplies.

About 70,000 people in Aalborg, in North Jutland, were among the first to feel the effects of the conflict, when heating from the local power station was stopped when maintenance workers went on strike.

Shoppers at the weekend were buying enough goods and petrol to last a couple of weeks in the belief that the strike will quickly cause shortages.

The conflict, involving a strike of 285,000 industrial workers, with 300,000 locked out, is the result of the failure of the LO labour organisation and the employers to agree on a two-year collective wage settlement.

The four-party minority government, headed by the Conservative, Mr Poul Schlüter, is under pressure from the centrist Radicals to stop the strike with a statutory settlement as soon as possible. The coalition needs Radical support to ensure a parliamentary majority.

While the Government has not given any official indication of it plans, it is expected to propose a settlement which includes a small reduction in the working week and wage increases around 2 per cent.

This may be combined with a freeze on prices and profit margins, while indirect taxes will be increased to curb domestic demand and stop the deterioration in the current account deficit. The latter is large enough to be causing alarm.

Credit restrictions, compulsory savings for high income groups and increases in payroll taxes are among other measures which may be under consideration. Although a statutory settlement may lead to some disruption by unofficial strikers, past experience suggests that most will accept it.

MINISTERS BEGIN ANNUAL PRICE HAGGLING

Lines drawn in EEC farm battle

BY QUENTIN PEEL IN BRUSSELS

EEC AGRICULTURE ministers today begin their annual round of haggling over farm prices, with little prospect of rapidly bridging the gap between those demanding an effective price freeze, and the farm lobby seeking an increase of up to 5 per cent.

The three-day price fixing in Brussels begins with all sides firmly entrenched, and the fiercest battles set for cereals prices, fruit and vegetables, and dairy production quotas.

In spite of an official deadline of April 1, the ministers are widely expected to have to meet again next week in Luxembourg, probably right through to the Easter weekend.

The European Commission has put forward a price package intended to restrain the soaring costs of the common agricultural policy by imposing a virtual price freeze, with sharp real price cuts for cereals (of 3.6 per cent) and fruit and vegetables (6 per cent). Britain backs that position, although Mr Michael Jopling, the Farm Minister, believes it is not tough enough to prevent the continuing growth of surplus production in several sectors.

A WARNING of further financial trouble ahead for the common agricultural policy has been issued by the UK-based commodity trading company S & W Beresford, writes Andrew Gowers.

In a study of the European Commission's farm price proposals, Mr Simon Harris, a Beresford economist, says the Commission has left itself only a relatively small margin of error in its forecasts of 1986 agricultural spending, and that as a result farm spending could breach the agreement on budgetary discipline.

The Commission estimates that farm spending will stabilise between Ecu 19.5bn and Ecu 20bn next year, compared with a revised estimate for this year of Ecu 19.955bn. This gives a margin of error of at best Ecu 1bn.

Mr Harris comments: "The Commission still tends to measure its success in terms not so much of 'fundamental' reform and making medium-term strategies bite as in terms of containing Community budget costs . . . The problem with the Commission's estimates is that they are based on contingencies which are outside the Commission's control."

West Germany is the most adamant opponent of the planned cereal price cut. Herr Ignaz Kiechle, its Agriculture Minister, is refusing to contemplate any outcome which would amount to a real reduction, although the Commission argues that a full 5 per cent cut is actually justified by the level of 1984 production.

Italy and Greece are both fighting the 6 per cent cut for fruit and vegetables proposed by the Commission because of the surpluses last year which meant vast tonnages of crops like citrus fruit had to be destroyed.

Although there is no serious clash looming on dairy prices, there is likely to be a serious division about dairy production quotas. According to the reform package agreed at last year's price fixing quotas are supposed to be cut by a further 1 per cent, or some 1m tonnes, from April. Again, it is West Germany, normally a strict disciplinarian on budget questions, which is seeking to delay the measure.

Ireland has its own problems on the specific national dairy quota it has been allowed, seeking a rise of some 58,000 tonnes on the grounds that it was underestimated because of a statistical error. Mr Austin Deasy, the Irish Agriculture Minister, might be tempted to block the entire price-fixing to get his way.

The ministers are meeting in the wake of widespread demonstrations by farmers across the Community last week demanding more than the planned price freeze. They also have to bear in mind the European Parliament's call for a 3.5 per cent average increase.

One way they can soften the blow for individual countries is to vary the proposed changes in monetary compensatory amounts (MCAs), the border taxes which seek to iron out the effect of exchange rate differences between member states.

Kadar set for another leadership term

By Leslie Colitt in Budapest

THE HUNGARIAN Communist Party congress which opens today is expected to confirm Mr Janos Kadar (73) as leader for another five years of the country he has led since the 1956 uprising.

Countrywide preparatory meetings have voiced repeated criticism of the failure to meet one of the most important goals set at the last congress—maintaining living standards. The party acknowledges that only a third of workers have been able to maintain their standard of living, with another third doing so by taking second or third jobs. The remainder suffered a fall.

The congress is expected to announce that real wages will begin to rise again this year after falling for several years because of an inflation rate of some 8-9 per cent.

IMF tells Italy to curb spending

BY JAMES BUXTON IN ROME

ITALY is facing criticism again from the International Monetary Fund for failing to keep public spending, incomes and money supply under control.

Mr Alan Whittome, the IMF European director, has told the Government of Sig Bettino Craxi that if corrective measures are not taken rapidly Italy could "in the not too distant future return to a path of slow growth, unemployment and rising inflation."

The letter, published in a newspaper yesterday, acknowledges Italy's relatively-fast economic growth in 1984, its achievement in getting inflation down to single figures and the strength of Italian industrial companies.

However, it says the authorities have allowed the money supply to expand too fast since late last year. The containing of the PSBR last year to roughly within the official target was more apparent than real because local authorities, who would otherwise have been funded by the Treasury, borrowed instead from the banking system.

The Government's aims to reduce inflation this year to 7 per cent, to achieve economic growth of 2.5 per cent while keeping the current account deficit to not more than 0.5 per cent of gross domestic product will only be achievable if there is swift action to hold down wages and reduce wage indexation.

The IMF believes that the Italian PSBR will increase as a proportion of GDP this year—it is already by far the highest of any industrial country—unless the Treasury acts now to hold down the pay of its several million employees. In the long term, action must be taken to hold down spending on health and pensions.

The letter also says there is a danger of real interest rates growing faster than GDP this year as the Government finances its deficit by selling bonds to the public. The expansion of the money supply must be restrained at once, the Fund says.

However, the chances of the Government acting immediately on the IMF's advice are slim. Italy is in the middle of a long campaign for local elections in May, which virtually rules out any curbing of spending.

Greek vote inconclusive in round two

By Andriana Ierodiaconou in Athens

ANGRY SCENES, including the temporary hijacking of the ballot box by an opposition MP, broke out in the Greek Parliament on Saturday during a stormy second round of voting for a new President.

The second round, like the first a week earlier, was inconclusive. One hundred and eighty-one MPs voted in favour of Christos Sartzetakis, a Supreme Court judge and the only presidential candidate, nominated by the governing Socialist Party (Pasok). Aside from the 164 Socialist MPs, support for the government candidate was declared in advance by the 13 Communist MPs and four independents.

The result fell 19 votes short of the 200-strong majority required in the 300-member Parliament for election in the first or second round.

It brought relief to the Socialists, however, in exceeding by one vote the reduced majority of 180 which will be enough to elect Mr Sartzetakis in a third round of voting next Friday, under the Greek presidential election system.

The Government received a shock in the first round when, against expectations, only 178 MPs voted for its candidate in the prescribed secret ballot procedure. The result caused widespread speculation about the possible presence of dissident MPs in the Socialist ranks.

The Government insisted that all its men had toed the line, but on Saturday it surprised the House by introducing different coloured ballots for the second round of voting—blue for, and white against Mr Sartzetakis. Parliament regulations specify that ballots must be "uniform." The usual practice is to issue white ballots, which MPs leave blank or mark and place in an envelope at their benches, before casting in the ballot box.

The Conservative opposition accused the Government of violating the secret ballot rule prescribed by the constitution.

Kremlin appointment

Mr Anatoly Mayorets, 55, has replaced Mr Pyotr Neporezhny, 74, as Soviet minister for power and electrification, Reuter reports from Moscow. Western diplomats said the move was a sign that Mr Mikhail Gorbachev, the Soviet leader, was wasting no time in appointing younger technocrats in his drive to revitalise the country's sluggish economy.

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OVERSEAS NEWS

Reagan sets face against major cuts in defence

By Reginald Dale, U.S. Editor, in Washington

PRESIDENT Ronald Reagan has adamantly reaffirmed his resistance to any major defence cuts in negotiations on a budget compromise due to get under way this week.

In his weekend radio address, he said that waste and unnecessary spending on domestic programmes were largely to blame for the budget deficit. "Vital weapons systems, either conventional or strategic, must not be touched, period."

Mr Reagan said he had made the point strongly on Friday to Republican Senate leaders, who have called for a freeze in real defence spending in the 1986 budget year. That meeting, while doing little to bridge their differences, established that a working group will start trying to negotiate agreement on a package of spending cuts in the next few days.

The President was confident that the two sides were "coming closer to a meeting of minds" on the deficit. He again insisted, however, that he would not raise taxes or "gamble with America's security, when the Soviet Union is every bit as aggressive, expansionist and dangerous as before."

Meanwhile, Mr Reagan pressed Mr Max Kampleman, his chief arms control negotiator, into service to help save his MX missile from defeat in two key House of Representatives votes, the first of which is set for tomorrow. Mr Kampelman has been recalled, from Geneva to make the case that the arms talks would be endangered if the House did not show "resolve" by approving $1.5bn for 21 more missiles, as the Senate did last week.

Pakistan's new premier wins confidence vote

BY MOHAMMED AFTAB IN ISLAMABAD

THE NEW Prime Minister of Pakistan, Mr Mohammad Khan Junejo, was given a unanimous vote of confidence by the national assembly yesterday during a debate in which most assembly members demanded that martial law should be lifted immediately.

Mr Junejo said he had already discussed the lifting of martial law with President Zia ul-Haq, so that the civilian Government would be able to function properly. He said his priority was to bring "full democracy" to Pakistan after eight years of military rule.

The Prime Minister, aged 54, comes from the backward Sanghar district in Southern Sind province, an area once dominated by the family of the executed prime minister Zulfikar Ali Bhutto. He served as the railway minister for West Pakistan province, when East Pakistan (now Bangladesh) was still a part of Pakistan in the late 1960s.

Mr Junejo will have to serve under the dominent figure of President Zia, who was sworn in fora new five-year term at the weekend. He is taking up office when, according to the opposition, all the front rank political leaders and morethan 2,000 activists are under arrest. They were locked up several weeks before the February 25 elections for instigating a boycott of the polls. The Government has admitted arresting only 369. Mr Junejo said he will discuss the question of their release with governors of four provinces of Pakistan.

The Prime Minister, who is a middle-of-the-road politician belonging to the former Moslem League Party, said he will shortly announcea cabinet, with "many new faces," including "men of integrity, high calibre and capability."

President Zia, inaugurating the new parliament—which includes an 87-member senate or upper house, and a 237-member national assembly, tried to dispell the prevalent view that it is to be a rubber-stamp. He said "all or any of the constitutional amendments I have made in recent days may be thrown out, changed, or retained by the parliament." Critics say that these changes enhanced Gen Zia's own powers out of all proportion, while those of the elected civilian Prime Minister have been drastically reduced.

Nimeiri crackdown on student activists

By Our Middle East Staff

PRESIDENT Jaafar Nimeiri of Sudan has continued his crackdown on the country's fragmented opposition by banning all student political activity outside the Sudan Socialist Union, the only permitted party.

The latest move by the eccentric and increasingly isolated Sudanese leader, announced at the weekend was clearly directed first and foremost at the influence of the Moslem Brotherhood whose leading members were arrested earlier this month.

Commenting on the disturbances that led to the closure of Khartoum University, Mr Nimeiri accused the Moslem Brotherhood of arming its student members there with "clubs and iron bars"

He also ordered a review of court sentences passed by members of the Moslem Brotherhood. They had based their rulings on suspicion rather than evidence and had practised injustice rather than justice and fair investigation he charged.

Mr Nimeiri accused the fundamentalist movement of preparing for a "treacherous act" through contacts "with a state which practises terrorism in the name of Islam"—an apparent reference to Iran. He also blamed Libya for supporting the Brotherhood. Further discontent seems bound to be aroused by a one-third increase in the price of bread without any announcement on Saturday.

AP adds from Los Angeles: U.S. military aircraft flew the last Ethiopian Jews (Falashas), from Sudan to Israel on Friday in a secret CIA operation, the Los Angeles Times reported. The number of Jews flown to Israel was not immediately known, but about 900 were believed to have been in the area.

Gandhi says India does not back Tamil extremists

BY MERVYN DE SILVA IN COLOMBO

INDIA does not support the Tamil separatists in Sri Lanka and is urging restraint and a de-escalation of violence in the country, according to Mr Rajiv Gandhi, the Indian Prime Minister.

Mr Gandhi denied that Tamil extremists were being trained in the south of India in an interview on the eve of a visit to Sri Lanka by Mr Romesh Bandari, the chief official in India's foreign affairs department.

The noticeably-lower level of violence in Sri Lanka recently may indicate that India has applied pressure in an effort to promote talks between the two sides. Officials in New Delhi believe that Mr Gandhi is trying to take a less aggressive line in regional policy than that of his late mother.

"There is an extra internal dimension to our relations with our neighbours," said Mr Jagath Mehta, former head of the foreign affairs department. He mentioned Sri Lanka and Tamilnadu in India where many Tamils live, Pakistan, Punjab, Bangladesh, Assam, Nepal and Bihar. India's interest in defusing tension with Sri Lanka, may be sharper since the ruling Congress (I) party was badly bruised in the South at the recent state elections.

Mr Gandhi spoke of the "severe strain" on India caused by Sri Lankan Tamil refugees. "Nearly 15,000 in one month alone, and this over and above the 50,000 after the anti-Tamil riots in July 1983 in Sri Lanka," he said.

Gemayel seeks assurances from Syria

By Our Middle East Staff

PRESIDENT AMIN Gemayel of Lebanon is believed to have sought during consultations at the weekend with President Hafez of Syria, two months in which to contain peacefully the "uprising" by hard-line militants in the Christian Lebanese Forces.

He returned home yesterday after an overnight stay in Cyprus after apparently obtaining assurances of further forbearance by the Syrian regime.

It regards the virtual takeover of the Christian militias by pro-Israeli militants, led by Mr Samir Geagea, as a serious threat to efforts aimed at bringing about reconciliation between the country's different sectarian and political factions.

The Lebanese head of state is anxious that Syria should not intervene with force against the dissidents.

Yesterday two of the crossing points between predominantly Moslem West Beirut and Christian East Beirut were closed as a result of sniper fire.

During the night there had been four hours of continuous fighting between Lebanese Army units and Moslem militias.

In Cyprus Mr Gemayel met President Spyros Kyprianou for discussions on bilateral relations and the divisions within their respective countries.

● Prime Minister Shimon Peres told his cabinet that Israel would talk "at any time and at any place" with Jordanians and moderate Palestinians, but he firmly opposed preliminary talks between an Arab delegation and the United States.

Naval incident tests Peking-Seoul relations

BY STEVEN B. BUTLER IN SEOUL

CHINA and South Korea have begun an exchange of messages over the return of a Chinese torpedo boat and its crew. The boat drifted into South Korean waters on Friday after a fight among the crew left six dead and two wounded.

The incident will provide another test for the slowly warming relationship between the two nations, which have no diplomatic ties. Both governments seem to want a quick resolution.

Three Chinese naval vessels which entered South Korean waters on Saturday in search of the torpedo boat were met by a show of force and turned away. The Seoul Government later issued a strong protest and demanded an apology.

The Chinese have not responded publicly, but a statement in Peking said that Chinese naval vessels had strayed "inadvertently" into South Korean waters.

Initial reports said the fight on the torpedo boat resulted from an attempt by crew members to take it over and sail it to Taiwan. The South Korean Government said later, however, that the fight was not related to political questions or any attempt to defect.

The exclusion of political factors will make it easier for the strongly anti-Communist Government here to arrange a return of the crew and the boat. In 1983 a hijacked Chinese airliner and its passengers and crew were returned to China after a delegation of Chinese officials came to Seoul for negotiations.

The hi-jacking incident led the way to expanded unofficial exchanges between the nations, including visits of athletes. Indirect trade has grown rapidly. Both nations clearly want improved relations but they have proceeded with caution because of China's close ties with North Korea.

● South Korea's real gross national product increased by 7.6 per cent last year, according to preliminary estimates by the Bank of Korea. This compares with 9.5 per cent in 1983, although it falls within the Government's 7-8 per cent target range.

WORLD TRADE NEWS

Soviet Union and Finland in oil rigs joint venture

BY OLLI V. VIRTANEN IN HELSINKI

RAUMA-REPOLA, the Finnish shipbuilding and forest industry group, is to build parts of two giant oil drilling rigs in a joint venture with a Soviet shipyard. The "jack-up"-type rigs will be the biggest of their kind in the world and they will be placed in the Arctic region of the Soviet Union.

Rauma-Repola's share of the deal is worth FM 300m (£37m), one third of the value of the rigs.

The legs and the hoisting mechanism of the platform will be built in Finland. A Soviet shipyard in Vyborg, near the Fenno-Russian border, will build the platform structure and assemble the parts shipped over from Finland.

The rigs will stand on three 144m legs. The size of the platform will be 140m by 70m.

Rauma is also negotiating a deal to build semisubmersible rigs with the Soviet Union. According to initial plans, the Vyborg shipyard would build and deliver the superstructure to the western coast of Finland where Rauma's shipyard would complete the rigs.

Rauma-Repola is building two jack-up rigs for the Soviet Union by itself but joint ventures would secure volume for the Finns. The group points out that the Soviet Union is still in the early stages in extracting its under-water oil reserves.

Finnish companies have aimed for closer industrial co-operation with the Soviet Union recently. Latest examples include Rautaruukki, the mining and metal industry company, which is building rail cars for the Soviet Union.

Wärtsilä shipyards recently won an order for two nuclear powered icebreakers worth FM 2bn (£250m). The Soviet Union will supply the ships with parts worth 20 per cent of the total value.

Valmet Oy to make Avtek aircraft under licence

BY OUR HELSINKI CORRESPONDENT

VALMET OY, the Finnish metal and engineering company, is to start production of light-weight Avtek aircraft in Finland, following signature of a licensing agreement with Avtek, of the U.S. Valmet has made a substantial equity investment in the California-based company.

The agreement is seen as a salvation for the Finnish aircraft industry.

State-owned Valmet runs the country's only aircraft construction company. By this autumn it will have assembled all 46 British Hawk jets (excluding four assembled in the UK ordered for the Finnish air force. Valmet's military training aircraft models have proved too expensive to export.

EEC to take venture capital stakes

By James Buxton in Rome

THE European Commission is to take direct financial stakes in venture capital investments. It is prepared to spend Ecu 1.2m (£750,000) this year as part of a pilot scheme involving innovative projects which cross borders between one country and another.

The announcement was made in Rome by the European Venture Capital Association (EVCA) which has nearly 100 members from Europe's venture capital companies.

Venture capital companies take minority equity stakes in new, preferably innovative, businesses with a view to developing advanced industry. The venture capital movement has spread from the U.S. to Britain and is also taking root in the Netherlands, West Germany, France and other EEC countries.

The Commission will be prepared to invest between Ecu 50,000 and Ecu 100,000—and in exceptional cases up to Ecu 200,000—and will be taking stakes of up to 30 per cent of the equity.

The projects will be put to the Commission after being approved by a steering committee of the ECVA. To avoid delays due to red tape, the Commission will be assumed to have approved the projects if it does not reply within 10 working days.

To receive Commission backing the project has to be inovative and to involve a syndicate of venture capital companies.

The scheme is open only to small and medium-sized businesses;

Cost snags hit Pilkington's China project

BY CHRISTIAN TYLER, TRADE EDITOR, RECENTLY IN SHANGHAI

WITH A Red Flag limousine containing the British Ambassador at its head, the convoy of Mercedes saloons threaded through Shanghai's southern suburbs, crawled along a choking tunnel under the Huang Pu river and drew up beside a sea of churned mud.

From this waterlogged wasteland, until a year ago a cabbage patch sprinkled with peasant cottages, is due to rise one of the biggest flat glass factories in the world.

It is the site of one of the rare manufacturing joint ventures between a British company and the Chinese state. Pilkington Brothers, the Lancashire glass company is licensing its famous float glass technology to the Chinese and is taking a 12½ per cent equity stake in the operation.

Its partner in the project is the Yaohua General Glass works, which employs 8,000 in its factory next door. Another 12½ per cent is being invested by the entrepreneur and trader Mr Shaul Eisenberg of United Development Incorporated registered in Hong Kong. The Bank of China has 25 per cent and the rest of the equity is held by the China National Glass and Ceramics Corporation and other agencies.

"Time is money," said the faded red characters on a silent pile-driver. The message was not lost on the pin-striped British VIPs as they descended from their cars to learn some of the difficulties Pilkington has encountered with its ambitious investment in today's "open door" China.

Sir Richard Evans, the ambassador to Peking, Mr James Prior, the former Cabinet Minister an now chairman of GEC, and Mr John Swinglehurst, director of Sedgwick, the big insurance brokers, were accompanying the recent sales mission of British industrial heavyweights led by Lord Young, Minister without Portfolio.

And there can be little doubt that Pilkington's problems in Shanghai were raised at the highest level when the mission was in Peking.

As a result of that intervention, the joint company hopes to get within weeks the final approval it needs from the State Planning Commission so that more funds can be released this year. The delay, it seems, has been caused by a big cost overrun; and until approval is given, the venture cannot make a priority claim on scarce building materials.

When the joint venture agreement was signed in March, 1983, an optimistic budget figure of Y236m (£80m) was put in. The latest estimate is for Y422m-Y432m by the time the 800 metre long plant is up and turning out 5,000 molten tons of glass a week in early or mid 1987.

The escalation of costs was due partly to delays and partly to a mismatch between the foreign and Chinese feasibility studies. Local equipment and materials could cost more than in Britain, according to a senior Pilkington manager, and occasional shortages already of local steel and cement has forced the company to import reinforcing steel for the foundation work from Japan.

The site, beside a tidal creek, was not ideal and has proved tougher to prepare than expected. The company is spending about £2m on a diaphram wall to contain the water.

But equipment orders are going ahead with the use of foreign exchange and Chinese currency loans provided by the Bank of China. A contract for £30m worth of Pilkington equipment has just been signed.

Construction should pick up in the autumn once the awaited approval is given. But the foreign partners are still in negotiation over payment of their dividend once the glass works is in production.

The official line in these cases is that a foreign partner can repatriate his profits in hard currency earned from his joint venture's export sales.

Where a substantial proportion of output is destined for export and the equity stake is small, there may be no difficulty. The problem arises when the stake is large and most of the sales are inside China and are paid for in non-convertible yuan.

If Pilkington is feeling a little bogged down in Shanghai at the moment, its ebullient senior manager for the project, Mr Patrick Furlong, was showing no signs of distress.

Waving his arm over the muddy landscape he cheerfully observed: "Of course if everything goes wrong, it will be the biggest swimming pool in Asia."

With a former British Cabinet Minister interceding for him in Peking, that does not look likely.

Bill to limit U.S. textile imports gathers support

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

FIRST HEARINGS on the Bill to limit textile and garment imports into the U.S. begin before the sub-committee of the House Ways and Means Committee on April 2.

The Bill, instigated a pressure group called Fibre, Fabric and Apparel Coalition for Trade (Fact), a grand coalition of employers' organisations and labour unions, led by the American Textile Manufacturers Association (AMTI), has gathered enormous support within Congress.

It has become clear that the Bill is a lot tougher in intention than appeared when it was presented to Congress last week.

The main provision is that countries which account for over 1.25 per cent of the total U.S. import bill would have their 1985 textile exports limited to no more than 1 per cent above the level that would have existed in 1984 had the multi-fibre arrangement (MFA) been policed properly.

From 1986 on these major exporters, which include Hong Kong, South Korea, Japan and Taiwan, will be allowed a 1 per cent a year growth rate.

Baghdad power contract goes to French

By David Marsh in Paris

IRAQ HAS signed a FFr 500m (£44m) contract with the French state-owned Compagnie Generale d'Electricite group to help to improve the country's electricity supply infrastructure.

The contract, which follows similar deals for electrification work, is for setting up seven turnkey transformer substations for the Baghdad region. They are scheduled to be in operation by 1987.

The order was signed with the Cogelex Alstom consortium, grouping the CGE subsidiaries CGEE Alsthom Atlantique and Cables de Lyon.

The contract comes at a time when further difficulties in Iraq's financial position have led the country to conclude a new rescheduling of debt repayments due to France. To agreement, reached earlier this month following a visit to Paris by Mr Tarek Aziz, the Iraqi Vice-President, was the fourth Franco-Iraqi debt rescheduling accord of the past two years.

France, which has been a major supplier of arms to Iraq in its long-running war with Iran, is also lending Baghdad FFr 900m to finance construction of an oil pipeline between Iraqi oil fields and the Saudi Arabian Red Sea port of Yanbu.

SHIPPING REPORT

Kharg blast reports weaken tanker trading

By Andrew Fisher, Shipping Correspondent

TANKER TRADING in the Gulf suffered further last week from the continued attacks on shipping during the Iran-Iraq war.

Reports that Iraq had hit the Iranian oil terminal of Kharg Island, also weakened the market, though some owners are still prepared to load there.

In the turmoil of the war, many deals in the area are kept secret. Rates have generally eased, however.

The major risks of trading in the northern Gulf area have not boosted rates because the surplus of world tanker tonnage remains huge.

Drewry, Shipping Consultants, said the world supply of tankers was 264m deadweight tonnes, of which VLCCs and ULCCs (very large and ultra large crude carriers) account for 54 per cent.

Attempts are being made to boost scrapping, headed by the London-based International Maritime Industries Forum (Imif) and supported by Japanese and South Korean shipbuilding companies.

Last year, however, the number of VLCCs and ULCCs—tankers over around 200,000 dwt—which were scrapped fell to 49 from 65 in 1983.

Drewry reckons that in 1990, on present forecasts for scrapping sales, the tanker industry could still face surplus of nearly 20 per cent of tonnage supply.

Indian oil deal

The state-owned India Oil Company, has signed a $400m (£333m) deal with Petromin of Saudi Arabia for 2m tonnes of crude oil. The deal is for 60 per cent Arabian light and 40 per cent Arabian heavy, writes Barre in Riyadh.

Mr A. J. A. Tauro, chairman of Indian Oil, signed the deal at the Saudi Ministry of Petroleum. India's largest supplier of oil is the Soviet Union.

Washington toughens stance on Japanese trade

BY STEWART FLEMING IN WASHINGTON

AS THE April 1 deadline for the finalisation of regulations governing Japan's newly privatised telecommunications market nears, U.S. officials have adopted a hectoring tone about the whole U.S./Japanese bilateral trade relationship.

Top Reagan Administration officials have warned that unless Japan makes trade concessions Congress might resort to the imposition of special discriminatory barriers against Japanese products.

Senator John Danforth, a supporter of free trade but a man who is concerned about U.S./Japanese trade relations, reportedly refused to meet Japanese trade delegations.

Observers are now questioning whether the patience of the Administration and Congress with America's major Asian competitor has finally reached breaking point. But it also is being asked whether the rhetoric is being carefully orchestrated to coincide with the first major bilateral hurdle since President Reagan and Japanese Prime Minister Mr Yasuhiro Nakasone met in Los Angeles in January.

At that meeting the two leaders agreed to formal talks aimed at improving U.S. producers' access to Japanese telecommunications, electronics, pharmaceutical and forest product markets.

Even U.S. trade officials do not deny that, in part, the rhetoric directed at Japan on trade issues is a negotiating strategy; privately they maintain that the tactic has worked.

One official pointed to last week's announcement that after months of negotiating a final accord has been reached with Japan on restricting steel exports to the U.S.

Separately Mr Lionel Olmer, the Commerce undersecretary, told a meeting of the Electronic Industries Association that "Japan has made a very serious effort to accommodate our interests," on the telecommunications issue, he said.

But according to one senior Administration official close to the talks the negotiating positions reflect not co-ordination but a lack of co-ordination among the various Government agencies, namely, the Commerce Department, the Agriculture Department, the Office of the President's Trade Representative and the State Department.

Although Mr George Shultz, the Secretary of State, was put in charge of the overall negotiations from the U.S. side, according to this official he has not played an active rôle. Moreover, there is, according to this assessment, "no strong mechanism to reconcile differencesences" over negotiating strategy between the different government agencies.

Mr I. M. Destler, a specialist on U.S.-Japanese trade relations for International Economics in Washington, suggests that in adopting a tough tone towards Japan, the Administration may also have been seeking to impress both Congress and domestic political constituencies with Washington's determination to tackle the political and economic problems posed by the surging U.S. deficit with Japan at $37bn last year.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (U.S.$m)

	Jan. '85	Dec. '84	Nov. '84	Jan. '84
U.S.	6,270	6,656	6,263	6,295
Japan	22,544	22,283	22,021	20,669
W. Germany	34,207	35,028	35,477	37,152
UK	6,739	6,969	6,812	8,529
Italy	19,080	19,067	19,995	17,907
Netherlands	7,624	7,778	8,004	8,438
Belgium	3,629	3,608	3,631	3,432
	Dec. '84	Nov. '84	Oct. '84	Dec. '83
France	19,102	20,467	20,403	18,057

Source: IMF

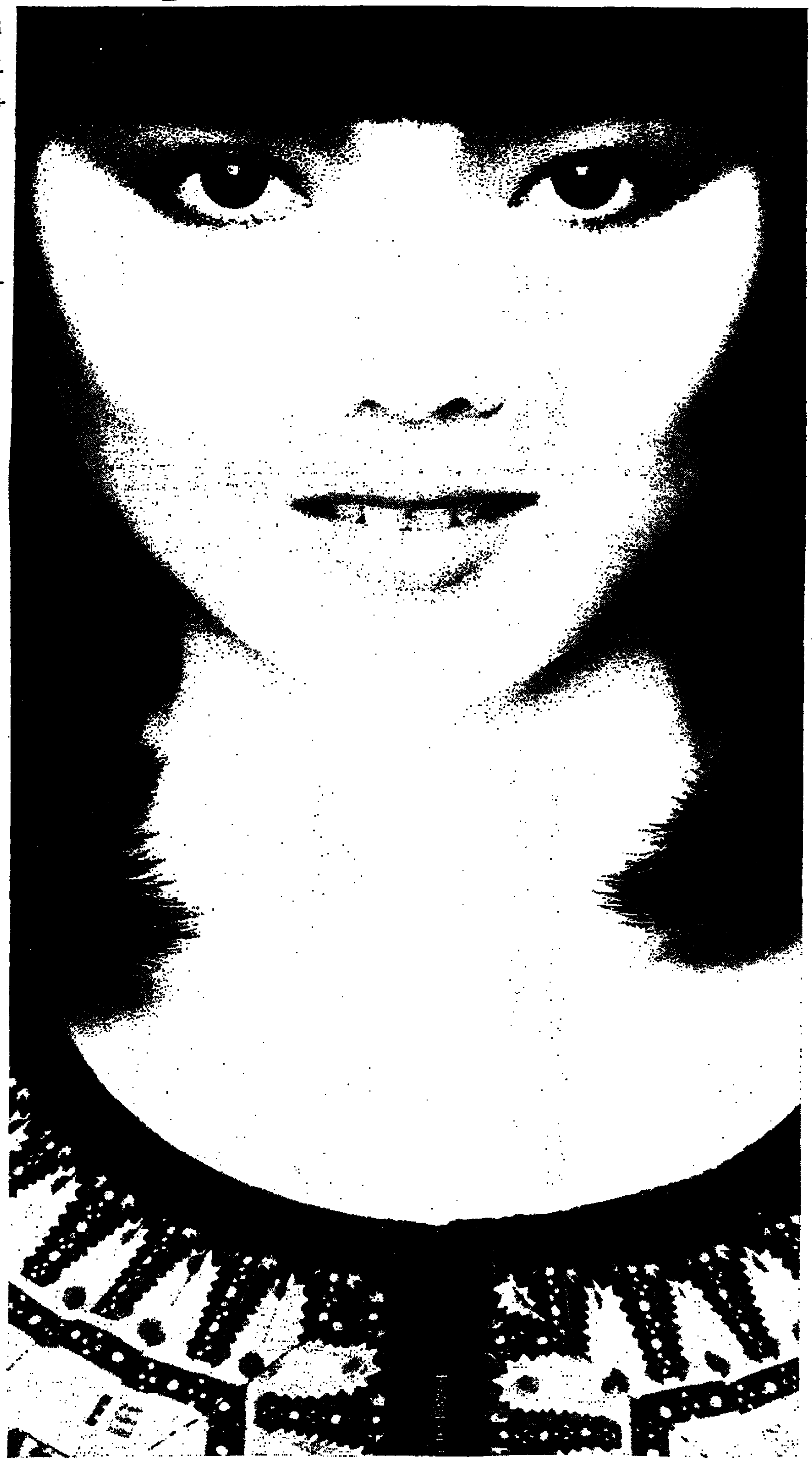
BASE LENDING RATES

A.B.N. Bank	13½%	Johnson Matthey Bkrs.	14 %
Allied Irish Bank	13½%	Knowsley & Co. Ltd.	14 %
Henry Ansbacher	13½%	Lloyds Bank	13½%
Amro Bank	13½%	Edward Manson & Co.	15 %
Associates Cap. Corp.	14 %	Meghraj & Sons Ltd.	13½%
Banco de Bilbao	13½%	Midland Bank	13½%
Bank Hapoalim	13½%	■ Morgan Grenfell	13½%
BCCI	14 %	Mount-Credit Corp. Ltd.	13½%
Bank of Ireland	14 %	National Bk. of Kuwait	13½%
Bank of Cyprus	13½%	National Girobank	13½%
Bank of India	13½%	National Westminster	13½%
Bank of Scotland	13½%	Northern Bank Ltd.	13½%
Banque Belge Ltd.	13½%	Norwich Gen. Trust	13½%
Barclays Bank	13½%	People's Tst. & Sv. Ltd.	14½%
Beneficial Trust Ltd.	14½%	Provincial Trust Ltd.	14½%
Brit. Bank of Mid. East	13½%	R. Raphael & Sons	13½%
■ Brown Shipley	14 %	P. S. Refson	14 %
CL Bank Nederland	13½%	Roxburghe Guarantee	14½%
Canada Perm'nt Trust	13½%	Royal Bank of Scotland	13½%
Cayzer Ltd.	13½%	Royal Trust Co. Canada	13½%
Cedar Holdings	14 %	■ J. Henry Schroder Wagg	13½%
■ Charterhouse Japhet	13½%	Standard Chartered	‖13½%
Choulartons**		TCB	13½%
Citibank NA	13½%	Trustee Savings Bank	13½%
Citibank Savings	¶12½%	United Bank of Kuwait	13½%
Clydesdale Bank	13½%	United Mizrahi Bank	13½%
C. E. Coates & Co. Ltd.	14½%	Westpac Banking Corp.	13½%
Comm. Bk. N. East	13½%	Whiteaway Laidlaw	14 %
Consolidated Credits	14 %	Williams & Glyn's	13½%
Co-operative Bank	*13½%	Wintrust Secs. Ltd.	13½%
The Cyprus Popular Bk.	13½%	Yorkshire Bank	13½%
Dunbar & Co. Ltd.	13½%		
Duncan Lawrie	13½%		
E. T. Trust	14½%		
Exeter Trust Ltd.	14 %		
First Nat. Fin. Corp.	15½%		
First Nat. Secs. Ltd.	14½%		
■ Robert Fleming & Co.	13½%		
Robert Fraser & Ptns.	14½%		
Grindlays Bank	‡13½%		
■ Guinness Mahon	13½%		
■ Hambros Bank	13½%		
Heritable & Gen. Trust	13½%		
■ Hill Samuel	§13½%		
C. Hoare & Co.	†13½%		
Hongkong & Shanghai	13½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 10½%, 1 month 11.25%. Fixed rate 12 months £2,500 11.75%, £10,000 12 months 12.00%.
† 7-day deposits on sums of under £2,000 10½%, £2,000 up to £10,000 11½%, £10,000 up to £50,000 11¾%, £50,000 and over 12%.
‡ Call deposits £1,000 and over 10½%.
‖ 21-day deposits over £1,000 11½%.
¶ Mortgage base rate.
§ demand deposits 10½%.
** See Provincial Trust Ltd.

WHEN SIR STAMFORD RAFFLES LANDED IN SINGAPORE THE BRITISH GOVERNMENT WAS ALL IN FAVOUR OF FREE TRADE.

NOW GOH MUI JONG WANTS TO LAND IN MANCHESTER, IS THE FEELING DIFFERENT?



When Sir Stamford Raffles founded Singapore, the British Government was keen to trade freely anywhere in the world.

The same philosophy has been adopted by the present British Government. And it is very much Singapore Airline's standpoint as it argues a case for Manchester services.

The story so far.

The existing Air Services Agreement between the United Kingdom and Singapore does not lay down the number of services to be operated.

It leaves the airlines themselves to decide how many services to provide, in the light of their own commercial judgement. But the British Government has imposed restrictions on us. We are only allowed to operate one service a day into Heathrow.

In February 1983 and again in September 1984, Singapore Airlines applied to start a new route to Manchester. The Department of Transport agreed to this, but only on condition that SIA's services to Heathrow were reduced.

The British Government knows, just as other airlines know, that anything less than a daily service on this increasingly popular route will not make commercial sense. So the Government's response is tantamount to a 'No' to Manchester.

Why has the Government said 'No'?

1. Does it think there is insufficient traffic to justify extra services?

Since 1976, when daily frequencies with B747's began, passenger traffic has grown from 173,000 to over 300,000 – up 73%. In the same period cargo has grown 145%. Yet, there has been no increase in either BA's or SIA's services during this period.

2. Could it be that it doubts our commercial judgement? Is it worried that we will lose money?

Our track record speaks for itself. Furthermore, Mr Spicer, the Aviation Minister, has said recently that airlines should be encouraged to back their own commercial judgement. This is precisely what we want to do.

3. Does the Government think SIA has an unfair advantage?

SIA has never received a single dollar in subsidy. This has been acknowledged in Parliament by Mr Spicer himself.

4. Does the Government want to protect British Airways?

Lord King himself has always said that BA welcomes competition. We ourselves would be happy for a British airline to compete with us on the route.

Is it commercially viable to serve Manchester?

1. Manchester is an International Gateway Airport. It serves 20 million people in an area that supports 60% of the UK's manufacturing industry.

2. Manchester Airport Authority estimates that in the first year there would be 19,000 outbound passengers to Singapore, and a further 19,000 going beyond. There would be considerable inbound traffic as well.

3. SIA does not start new services unless it is totally satisfied that they are commercially viable.

4. That is why the company has made a profit in every single year since it started in 1972. It is now one of the world's largest international airlines, although it comes from a country the size of the Isle of Wight.

How does this fit in with the Government's position?

The recent white paper on Airline Competition Policy declared 'the barriers to new services and airlines who can provide a safe and reliable service should be low...Only competition will ensure the flow of innovative ideas, and new management and marketing methods.'

Surely, what we are doing is exactly what Mrs Thatcher would applaud.

Manchester is keen to welcome us.

Britain is Singapore's largest trading partner in Europe. For all the benefits of international trade, increased employment and tourism, the Manchester Airport Authority is keen to welcome us. And certainly it would ease congestion at Heathrow.

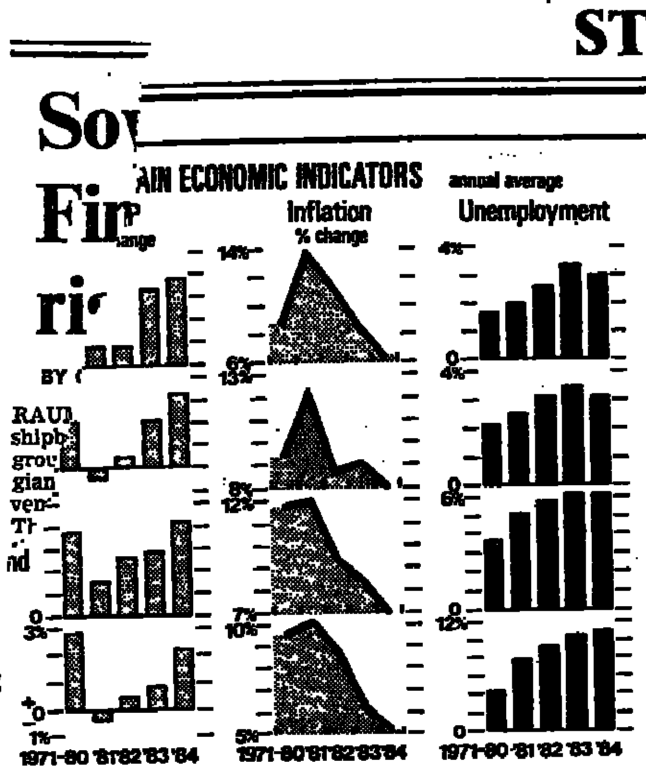
People in the North will also appreciate the gentle grace and style of Singapore Girls like Goh Mui Jong who have given us the kind of inflight service that even other airlines talk about.

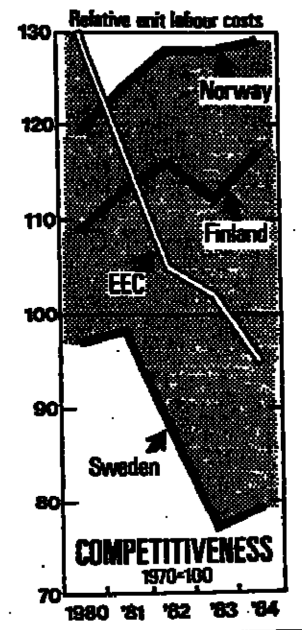
For all of these reasons, Singapore Airlines politely and respectfully asks Mr Nicholas Ridley to change his mind.

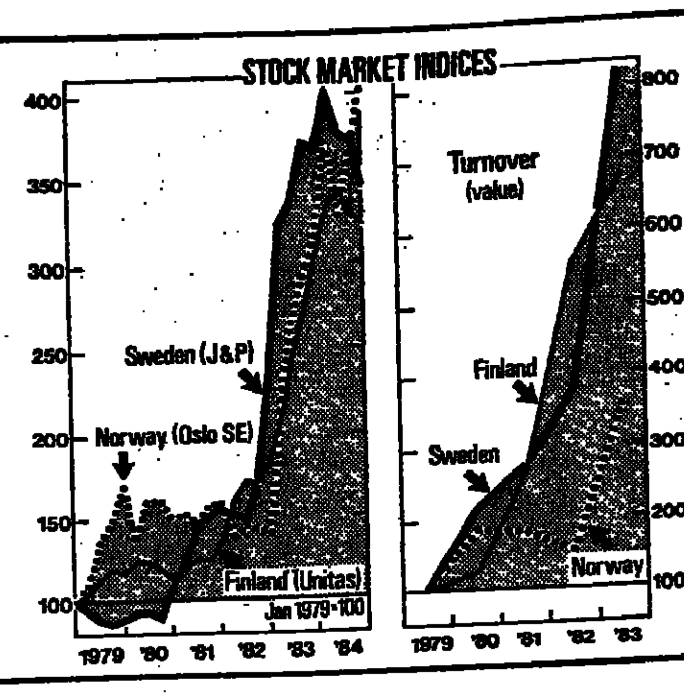
SINGAPORE AIRLINES

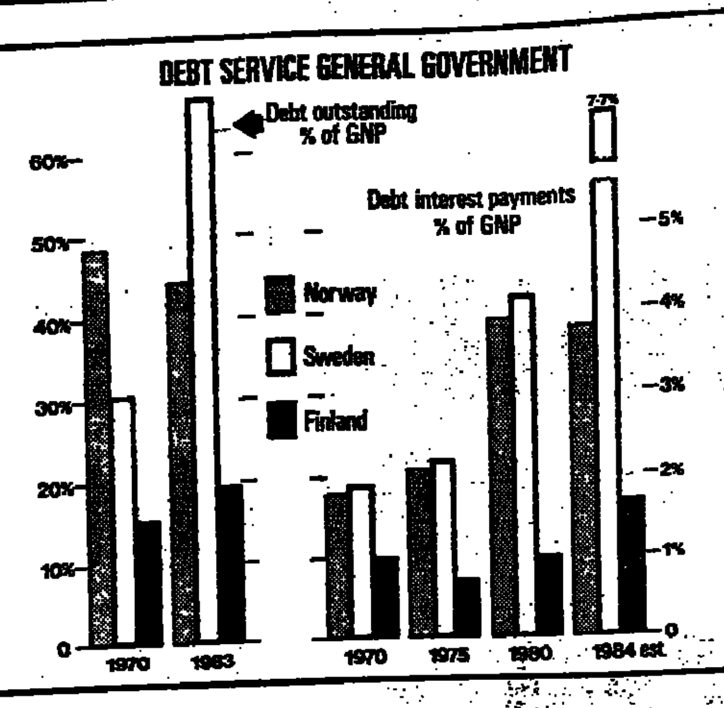
A great way to fly

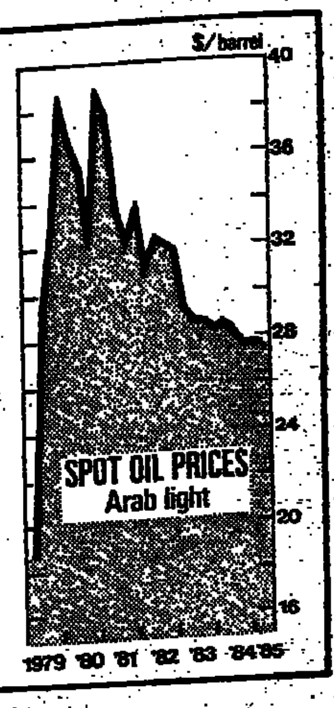
STATISTICAL TRENDS: NORDIC COUNTRIES











Exports lead growth rates above EEC average

SINCE 1982, the Nordic economies have expanded much faster than those of the rest of Europe, and last year they achieved growth rates well above the EEC average of 2.2 per cent.

Norway's economy grew by 3.8 per cent in 1984 with Sweden reaching a growth rate of 3.3 per cent and Finland topping both of those with an increase of 4.2 per cent.

Exports have been the main components of growth in all three countries, although there has been a slight rise in both private consumption and fixed investment.

Problems remain. Although inflation has fallen it is above that of their trade competitors, with Sweden's rate of inflation at 8 per cent, stubbornly high compared with the hoped-for fall to around 4 per cent.

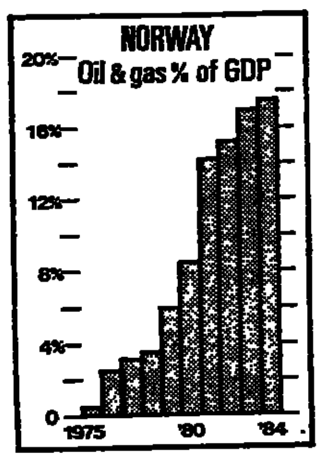
Unemployment by EEC standards is low, particularly in Norway and Sweden, where job creation schemes have kept the unemployment rate at 3 per cent.

The level of wage and price increases has eroded competitiveness, except in Sweden, where devaluation of the krona has allowed the country to retain its competitive position. While the EEC average for relative unit labour costs has fallen by 27 per cent and Sweden's by 19 per cent since 1980, those of Norway and Finland have risen by 8 per cent.

All the Nordic stock exchanges turned in dazzling performances in 1983, but 1984 turned out to be a dull year with the Swedish market falling back.

Between 1982 and 1983 turnover in securities increased by 135 per cent in Norway and by 120 per cent in Sweden. However, the markets can be subject to liquidity problems and foreign investors are restricted to 40 per cent of a company's share capital in Sweden and 20 per cent in Finland.

NORWAY
In the Norwegian economy, oil dominates GDP and export growth. Oil and gas now contribute 18 per cent to GDP, although they make little direct contribution to jobs.



It has led to increased government revenue, and to current-account surpluses after nearly 10 years of deficits, from 1970 to 1979.

The oil revenue is essential for continued high GDP growth and to finance restructuring in the non-oil industrial sector. The Norwegian economy therefore has become very vulnerable to the value of the U.S. dollar and to the oil price.

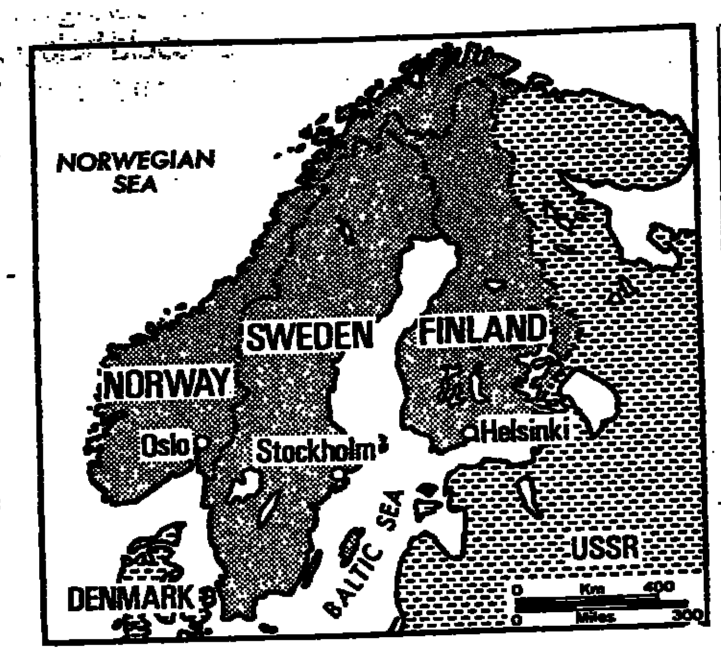
Falling prices have been offset by increased production but that production is expected to be lower in 1985 than in 1984 with a fall in export volumes.

Overall, GDP growth is expected to slow in 1985.

SWEDEN
Controlling inflation remains a government priority. The aim is to reduce it to 3 or 4 per cent from the current 8 per cent level.

The budget deficit, which dates back to the first oil-price shock, is being brought under control. It has fallen from 13 per cent of GNP in 1982-83 to 9 per cent in 1984-85. But the legacy of high budget deficits is a hefty debt-outstanding-to-GDP ratio of 67 per cent, and debt interest payments now account for 8 per cent of GDP. The government aim is to reduce the deficit to 7 per cent of GDP in 1985-86.

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Graphics Department.



The current account in 1984 was estimated to be in balance and Government tax measures in the autumn should help to keep that balance in 1985.

FINLAND
Export-led growth helped Finland to turn in a trade surplus in 1984 for the first time for seven years and to reduce the current-account deficit to $800m. A drop in exports to the Soviet Union was more than offset by a substantial increase in exports to the OECD countries.

Finland's low ratio of debt outstanding to GDP at 19 per cent reflects a government deficit heading for a balanced position, with the possibility of a surplus in 1985.

Higher wage increases than expected (10/11 per cent) might prevent inflation from falling further from the current 7 per cent level, and adversely affect competitiveness.

FINLAND: DIRECTION OF TRADE

% of total

	1976 Exports	1976 Imports	1984* Exports	1984* Imports
EEC	38.1	34.7	37.5	36.3
of which:				
W. Ger.	9.3	14.6	10.0	13.8
UK	14.2	7.9	10.9	7.6
EFTA	23.1	23.2	19.3	17.5
of which:				
Norway	3.6	3.1	5.0	2.1
Sweden	17.0	15.9	11.9	11.8
Centrally planned	24.2	21.9	21.5	27.4
of which:				
USSR	20.2	18.5	18.7	24.4
USA	2.8	5.2	7.7	4.8
Japan	0.7	2.4	1.3	5.8

* Jan.-Sept.

Source: OECD

NORWAY: DIRECTION OF TRADE

% of total

	1976 Exports	1976 Imports	1984* Exports	1984* Imports
EEC	56.08	44.4	69.4	46.2
of which:				
Denmark	7.4	5.8	3.4	6.2
W. Ger.	8.6	15.5	16.6	14.0
UK	28.4	9.8	36.1	10.4
Neth'l'ds	3.6	5.5	7.2	3.3
EFTA	18.8	24.3	13.0	25.3
of which:				
Sweden	14.2	18.4	10.0	16.8
Finland	2.2	2.3	1.3	5.2
USA	4.7	6.5	5.4	9.0
Japan	0.9	6.7	1.5	4.7

* Jan.-Sept.

Source: OECD

SWEDEN: DIRECTION OF TRADE

% of total

	1976 Exports	1976 Imports	1984* Exports	1984* Imports
EEC	48.6	51.0	48.8	52.8
of which:				
W. Ger.	9.9	18.9	11.8	17.3
Denmark	8.8	7.9	8.5	8.6
UK	11.3	10.5	10.5	13.6
EFTA	21.7	16.9	18.4	18.1
of which:				
Norway	11.3	6.1	9.3	8.0
Finland	6.4	5.7	5.8	6.2
USA	4.6	6.8	10.6	11.9
Japan	0.9	3.2	1.5	1.7

* Jan.-Sept.

Source: OECD

GROSS SAVING % OF GDP

	NORWAY	SWEDEN	FINLAND
1963	26.2	24.7	23.4
1968	27.3	23.8	24.3
1973	28.4	24.1	29.5
1978	23.4	17.6	22.9
1983	28.5	14.0	24.9

NORWAY OIL/GAS PRODUCTION

	OIL ('000 tons)	GAS (million SM³)
1977	13,564	3,139
78	16,957	14,891
79	18,819	21,883
80	24,451	25,873
81	23,450	26,162
82	24,515	26,194
83	30,634	25,811

Source: NOS industrial statistics

TRADE WITH SOVIET UNION AND E. EUROPE

EXPORTS ($ million)

	1970	% of total	1984	% of total
Norway	61	2.5	194	1.0
Sweden	338	5.0	271	2.5
Finland	361	15.7	2,868	21.9
OECD	7,067	3.2	35,872	2.9

IMPORTS ($ million)

	1970	% of total	1984	% of total
Norway	82	2.2	530	3.7
Sweden	331	4.7	1,883	6.3
Finland	425	16.1	3,687	28.6
OECD	6,626	2.9	40,883	3.3

Source: OECD

COMPONENTS OF DEMAND AND OUTPUT

% changes from previous year (1980 prices)

	NORWAY 1983	NORWAY 1984	SWEDEN 1983	SWEDEN 1984	FINLAND 1983	FINLAND 1984
Private Consumption	1.0	1.5	−1.7	0.8	2.0	3.3
Government Consumption	3.7	3.6	0.9	1.3	3.9	3.8
Gross fixed investment	2.7	10.1	1.1	5.0	2.5	0.5
Final domestic demand	2.1	4.3	−0.4	1.9	2.5	2.3
Stock building†	−2.6	−0.5	−0.4	0.5	0.4	0.5
Total domestic demand	−0.7	3.8	−0.8	2.3	2.9	3.0
Exports	7.0	6.2	10.5	8.3	3.6	7.0
Imports	−1.2	6.7	•	5.8	3.8	3.3
Foreign balance†	3.8	0.3	3.3	1.0	•	1.3
GDP	3.2	3.8	9.2	8.5	2.9	4.3
GDP excl. oil and shipping	1.6	2.8	—	—	—	—

† % of GDP in previous period.

CURRENT ACCOUNT

$ billion

	NORWAY	SWEDEN	FINLAND
1971	−0.5	0.4	−0.3
72	−0.1	0.6	−0.1
73	−0.3	1.4	−0.4
74	−1.1	−0.6	−1.2
75	−2.4	−0.4	−2.2
76	−3.7	−1.6	−1.2
77	−5.0	−2.1	−0.1
78	−2.1	−0.3	0.6
79	−1.0	−2.4	−0.2
80	1.1	−4.5	−1.4
81	2.2	−2.7	−0.3
82	0.8	−3.6	−1.0
83	2.2	−4.0	−1.0
84	3.4	•	−0.8

Source: OECD, Phillips & Drew

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UK NEWS

Austin Rover to invest £140m despite losses

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE SETBACK in Austin Rover's progress towards profitability last year would not force the company to cut back its capital investment programme, Mr Harold Musgrove, the chairman, said at the weekend.

Austin Rover, subsidiary of state-owned BL, boosted capital spending from £120m in 1983 to about £140m last year, or roughly 7 per cent of revenue, in line with the rate maintained by other volume car manufacturers in Europe.

Mr Musgrove said that this year capital investment would continue at about £140m.

BL reported last week that ARG Holdings, which includes Austin Rover and BL Technology, suffered an operating loss of £28m for 1984 after achieving a profit of £3m the previous year. The 1984 target had been to be close to breakeven at the pre-tax profit level and then to achieve a net profit in 1985.

Mr Musgrove indicated it was difficult to forecast when Austin Rover would return to profit because conditions in European car market were so competitive.

Austin Rover had cut its cost base to the lowest possible level and therefore would have to increase sales volumes to improve its financial position.

With a full range of new models available and industrial disputes out of the way – Mr Musgrove maintained he was "delighted at the attitude and morale of the workforce," after the wages dispute last year – Austin Rover looks for a "significant" increase in car sales in the UK in 1985.

At the end of February the company's registrations were up by 8.4 per cent at 58,770 compared with the same month last year, whereas sales by its main rivals, Ford and General Motors (Vauxhall-Opel), were down by 7 per cent and 4.5 per cent respectively.

Mr Musgrove acknowledged, however, that Austin Rover had to improve its image with the buying public if it was to achieve its future market-share ambitions. "No other company has made such progress in such a short space of time. But the buying public so far has not accepted our changing image."

On the European continent, the EEC Commission's new regulations designed to bring pre-tax car prices within the Community closer into line has forced Austin Rover to change tack.

"It is causing us to increase prices faster than the rate of inflation – even if it costs us sales. It is no longer a question of making money in the UK and breaking even on the continent," Mr Musgrove commented.

He revealed that Austin Rover was facing intense pressure from its suppliers for higher prices – "partly because we have pushed them so hard to give us extra quality."

The company has held its annual bill for bought-in materials and components to about £900m for the past four years – "not just by beating suppliers over the head but by making major engineering advances in our factories," he said.

The European Community's decision to impose more stringent emission regulations for cars will also cost Austin Rover considerable money and absorb engineering resources. "But apparently we are being given time to get ready for the new standards," Mr Musgrove said. He claimed that many of the company's existing engines were already significantly ahead of current European emission standards because of the electronic engine management systems Austin Rover had introduced over the past two years.

Austin Rover's product plans for "leaner burning" engines should enable it to comply with the European standards as they came into force, he said.

The Transport and General Workers Union last week called for a curb on car imports to the UK to protect Austin Rover and suggested imports should by 1988 be restricted to only 35 per cent of total sales, compared with over 57 per cent at present.

Mr Musgrove maintained such an import ban would not be in the best interests of the UK – "but while I don't agree with the union, I can see what it is trying to do."

Jaguar cleared over discount complaint

BY OUR MOTOR INDUSTRY CORRESPONDENT

JAGUAR has been given "a clean bill of health" by the Office of Fair Trading (OFT) after an investigation into complaints that it was limiting the discounts which dealers could give on its luxury cars.

Any such limit would contravene the Resale Prices Act 1976 which permits manufacturers to recommend retail prices but not to fix them.

The OFT says it has contacted Jaguar dealers and could find no evidence to support the allegations.

The complaints stem from the fact that, since Jaguar was returned to the private sector last August by its state-owned parent BL, large fleet customers have no longer been able to obtain big discounts. There were suggestions that dealers who offered discounts of more than 10 per cent on the list price have had their car allocation cut.

Jaguar, however, insists that it has no such "penal policy operating between ourselves and our dealers."

Mr John Egan, the chairman, points out: "We see no reason for discounting a range of luxury cars which are very competitively priced and for which there is a growing demand.

"We are delighted to know that our new breed of professional dealers are avoiding the price-cutting war affecting the industry and instead have grasped the opportunity to trade profitably and provide an unparallelled after-sales service to their customers," he said.

Sales of Jaguar and Daimler cars in the UK last year rose by 6.7 per cent from the 1983 level to 7,544.

Mr Egan says he expects luxury car demand in the UK and other big markets to continue to grow this year. "As in 1984, demand for Jaguar cars will continue to exceed supply."

UK NEWS

Ian Hargreaves talks to the retiring head of Shell UK

Oil 'statesman' leaves

IT WAS not a good time to catch John Raisman. The morning after the budget last week, the chairman of Shell UK had his staff counting the heavy cost to Shell of graduated national insurance payments and, with other oil executives, he was bemoaning the Chancellor of the Exchequer's refusal to provide incentives to produce extra oil from declining North Sea reservoirs.

Mr Raisman was also preparing for his retirement from the company this week at the age of 55. At that conference, tomorrow, he will explain that Shell UK has made the first annual loss on its downstream refining and oil marketing business that anyone can remember.

"Last year was a disaster, relatively speaking, but it does tend to concentrate the mind on the need to take action," he says.

That action will be the first priority of his successor, Mr Bob Reid, who, like Mr Raisman, is a career Shell man who has served the company all over the world.

Mr Raisman, however, has also established himself as a leading statesman of the business world, fuelling speculation among his friends that he will shortly take up a leading role either within the Confederation of British Industry or the public sector. There is talk that he might succeed Sir Denis Rooke as chairman of British Gas, perhaps to prepare it for privatisation, or even that he might succeed Mr Ian MacGregor at the National Coal Board.

"I think coal is a cup of hemlock I would be willing to let someone else drink," he says. "I have become more and more jaundiced about taking on jobs in the public sector. The freedom of action of individuals is so tightly circumscribed."

As for the CBI, he is more cagey. He plans, he says, to continue his current job as chairman of the CBI's Europe Committee – a platform he has used to press for British membership of the European Monetary System – and to join the confederation's new task force on monitoring industrial performance.

He has also taken on four directorships – including British Telecom and Lloyds Bank. "I suppose I have about half a week of my time still available," he says.

Mr Raisman was born in India – his father taught him Latin and Greek in between helping to govern India as a senior civil servant. Mr Raisman has established himself as a solid, even powerful performer, although not a charismatic one. He is one of that generation of businessmen who have deep anxieties about, for example, unemployment – he is active in a number of job-promoting agencies – but who have over time learned to love Mrs Thatcher's approach to the economy.

Asked whether he thinks Britain has used its North Sea oil bonanza well, he recalls the days when he used to make tough speeches about the need for an oil-funded investment pool to revive British industry. "I am not so sure now," he says. "The money has been spent to enable a lot of social and economic changes to take place."

He also says that the CBI needed to learn the lesson of not being too strident in its conversations with government. "That is not the way to pull the heart strings of the Thatcher Government."

He argues that, on balance, both government and industry have done a good job in exploiting North Sea oil and he is especially satisfied at the progress made by Shell during his six-year chairmanship in controlling costs in the North Sea.

He is also pleased at the progress made in developing Shell UK's management structure – striking a balance between an integrated corporate image, which is effective politically, and delegation of decision making and profit centres.

That structure has not, he concedes, proved equal to the task of maintaining profits downstream or, as elsewhere in the industry, in successful diversification away from oil.

State grants for hi-tech ventures to be renewed

BY WILLIAM DAWKINS

THE GOVERNMENT will this week unveil two measures to assist small businesses and publish its long-awaited report on how to reduce the bureaucratic "red tape" facing entrepreneurs.

Mr Norman Tebbit, the Trade and Industry Secretary, is today expected to announce a new lease of life for government grants to small, high-technology ventures. He is planning to use the occasion of the budget debate in the House of Commons to reveal that the Department of Trade and Industry (DTI) is lifting a five-month moratorium on its Support for Innovation (SFI) scheme.

The SFI, the Government's chief source of aid for research and development projects, was suspended last November when its £200m annual budget had been fully allocated. Mr Geoffrey Pattie, Minister for Information Technology, said at the time that the SFI needed reviewing.

The precise details of any changes to the SFI are not known. But its return will be welcomed by the computer industry, which has been lobbying heavily for its revival. Launched in May 1982, the SFI pays 25 per cent of the cost of developing commercially viable products which would not have seen the light of day without government assistance.

The DTI has received 4,700 applications for assistance under the SFI to date and has distributed £380m to 2,800 projects. Last year, the Department received 2,500 applications, a 60 per cent increase on the previous 12 months.

The Department will announce on Wednesday the details of a repackaging of its 64 industrial aid schemes into four easily understood sections. The schemes are not solely designed for small businesses; although the sector is believed to have been making inadequate use of the DTI's aid programme because managers find it confusingly presented. The new sections will cover investment, advice, innovation and exports.

The report on red tape, compiled with the help of seven government departments led by the DTI, will be made public on Friday. Mr John Moore, Financial Secretary to the Treasury, on Saturday told the annual conference of the National Federation of Self Employed and Small Businesses: "It will not necessarily be pleasant reading for ministers. It will suggest a lot of changes, creating a good deal of work for me and others."

Mr Moore said: "We have already made a lot of worthwhile changes – for example, by simplifying government forms and reducing the amount of detailed information which small companies must file with the Registrar of Companies. But this is not enough."

The scrutiny report on administrative burdens will contain suggestions as to how departments might change their working practices to make life easier for small companies. Some of its proposals are also expected to lead to legislative changes.

Spearheaded by Mr David Trippier, the minister with special responsibilities for small businesses, the report will go to Lord Young, the minister with responsibility for job creation.

Lord Young's Enterprise Unit, meanwhile, is examining the range of government support for the small businesses sector. It will be making suggestions later this year as to how such assistance might be better co-ordinated.

Ruling expected on Channel ferry sale

BY ANDREW FISHER, SHIPPING CORRESPONDENT

THE OFFICE of Fair Trading will decide soon whether the £12.5m purchase of the P&O ferries cross English Channel operation by European Ferries in January should be referred to the Monopolies and Mergers Commission.

It has told Mr Peter Guilor, who is attempting to mount a management buy out of the ships on the Dover-Boulogne route, that it will wait to see if he can come up with the finance for his rival deal before deciding on its recommendation.

Under normal monopolies criteria the deal would qualify under the Fair Trading Act for a referral to the Monopolies Commission.

Sir Gordon Borrie, Director General of Fair Trading, will advise Mr Norman Tebbit, Secretaty of State for Trade and Industry, on the OFT's views. Any reference must be made within six months from the date of the transaction.

One reason the purchase has not so far been referred is that the alternative *seems* to be closure by P&O of the loss-making ferry operation employing 1,100 people and running five ships.

But Mr Guilor, chief engineer on the Tiger, one of the three ships on the Dover-Boulogne service, said yesterday that he was confident of raising the £4m or so needed to buy the vessels which he said could be profitable.

He has been told by the OFT that it needs to be satisfied on finance for his buy-out which he says is supported by many of the former P&O Ferries staff and of the viability of his proposed operation.

Sir Geoffrey Sterling, chairman of P&O, and also an adviser on industrial matters to Mr Tebbit, said in January that the sale had been made to eradicate a heavy loss maker. The deal gave European Ferries (owner of Townsend Thoresen) nearly 30 per cent of the Dover-Boulogne market and nearly 40 per cent on all Channel routes.

Townsend is seeking redundancies for about a third of the 750 P&O shore and sea staff on the route from Dover. The ships on the route are the Tiger, Panther and Lion though the latter is up for sale. P&O had two other ships sailing between Portsmouth and Le Havre.

Insurance claims rise in aviation market

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

ALTHOUGH the London aviation insurance market had a good year in 1984, the trend has been reversed in the early months of the current year.

During 1984, according to the Aviation Insurance Offices' Association, there were only eight total losses to Western-built jet airliners, including two lost because of deliberate acts of sabotage, involving about $60m, in addition to a $25m claim for a partial loss for a DC-10 which skidded off the runway at New York's Kennedy airport.

In addition, there were losses by aircraft manufacturers amounting to $60m for aircraft on test or demonstration (including the de Havilland Buffalo that crashed at the Farnborough air show).

To these losses of $145m there may be another $50m added because of hailstorm damage suffered in West Germany last July which is only now coming to light as aircraft become due for servicing.

But Mr Denis Floyd, chairman of the Association, says that during the first two months of 1985 there have already been 10 airline losses involving jet and turbo-prop aircraft, with about 400 passengers killed.

"With liability claims from past years still maturing, the market is confronted with an ever-increasing claims cost, underlining the need for the continuation of market strengthening.

Two other elements in the aviation insurance market are also causing concern.

One is the "products liability" of aircraft manufacturers, especially in the U.S., whereby insurance claims can be made long after the product involved was initially manufactured.

The other problem is satellite insurance. The loss of three satellites during 1984 cost insurers more than $280m in settlements and "had a sobering effect on the market."

UK NEWS

Thatcher to study plans for local finance reform

BY PETER RIDDELL, POLITICAL EDITOR

PROPOSALS for a major restructuring of local government finance, including nationwide limits on the level of business rates (property taxes), will shortly be considered by a group of senior ministers headed by Mrs Margaret Thatcher, the Prime Minister.

Mr Kenneth Baker, the Minister for Local government, told Conservative Party activists at a meeting in Newcastle-upon-Tyne over the weekend that the internal Whitehall review established last autumn was "well in hand and options will be presented to the Cabinet in the early summer."

The decision on how radical the changes will be is one of the most difficult facing the Cabinet, since the rates issue has confounded governments of both main parties and arouses strong passions among MPs and local party supporters.

An agreed priority, as stressed by Mr Baker in his speech, is to re-establish true local accountability and to broaden the local revenue base while protecting business. He said: "At present, the local rates burden falls on too few shoulders, while accountability to the electorate is very thin, especially in inner cities."

Many people, he added, were "cushioned by housing benefit from the effects of council spending policies so that the link between rate demands and the ballot box its wearing thin."

Several options are likely to be presented to deal with these problems:

- Freezing the level of business rates (40 per cent of total rate income) or fixing the business rate each year on a national rather than a local basis. This would lead to some redistribution of the burden away from big cities to smaller towns.
- Controlling domestic rates and allowing councils to raise revenue in other ways which would fall on everyone. One possibility is a per-head levy, like a poll tax, which every adult resident would have to pay.
- A local sales tax, probably related to value-added-tax, or a local income tax, although both possibilities have been ruled out in the past.
- Changes in the electoral system to ensure that at least district and borough councils are elected on a rolling basis (a third up for re-election each year) to provide greater accountability.

Hostility to pit strike admitted

BY PHILIP BASSETT, LABOUR CORRESPONDENT

LEADERS of the largest area of the National Union of Mineworkers (NUM) are for the first acknowledging the unpopularity of the recent miners' strike in a frank internal assessment of the impact of the year-long dispute.

A confidential analysis prepared by the four senior officials of the Yorkshire NUM calls for a constructive managerial approach from the National Coal Board, for an end to the divisions within the NUM, and for NUM members to drop their legal actions against the union.

The area officials' private report, by Mr Jack Taylor, area president, Mr Owen Briscoe, secretary, and two other officers, is the first internal assessment of the dispute by the NUM that has so far emerged.

It praises the "magnificent response" of the union's members to the "historic fight" of the strike. It details the role of the police and the courts, and says: "The ferocity of the attack [on the union] and the financial commitment to it even now takes some believing."

The area leaders still claim that "violence was not, and never has been, the issue – nor was the need for a ballot," despite the evidence of public opinion polls. For the first time, however, the officials acknowledge "the general apathy of the public at large, and in particular, the trade union and labour movement."

They say: "It must be accepted that there was a marked hostility during the dispute to the union and its membership."

The document sets against that the "substantial" support the union received although it accepts that "a lot of this support is not from the economically powerful factions of society."

It is critical of the position of other unions, noting that miners have "expressed bitter disappointment at the lack of official response from the TUC (Trades Union Congress) and other trade unions."

Court order against print unions

BY OUR LABOUR CORRESPONDENT

MANAGEMENT of two mass-circulation newspapers owned by Mr Rupert Murdoch's News Group Newspapers yesterday obtained High Court injunctions against two print unions which are taking industrial action.

The injunctions were sought by the Sun, a daily tabloid paper, and the News of the World, a Sunday paper, under the Government's 1984 Trade Union Act. The act requires unions to hold a secret ballot of their members before any strike.

The Sun has lost 23.5m copies since the dispute began last week in its machine room. The injunction is against the National Graphical Association and Sogat 82 and 10 named union officials. It instructs them not to encourage employees to break their contracts by failing to ensure full and uninterrupted production.

The move by the News Group adds to the growing number of cases being brought under the Act.

- Technicians at British Telecom's three main international exchanges in London have begun an overtime ban because 265 named individuals have been identified as "surplus to requirements."

Union officials claim the ban will have a considerable effect on the quality of the international services.

Retail war expected over spectacles

By Carla Rapoport

A BIG RETAIL battle in a £250m-a-year spectacles market is expected to break out this week with the withdrawal of government subsidies for spectacles on April 1.

On Thursday, the Association of Optical Practitioners (AOP), representing about 70 per cent of Britain's independent optical practices, will launch a range of specially-designed spectacles with starting prices of £14.95.

The launch, the biggest in the optical market for more than a decade, is aimed at maintaining the AOP's domination in the market once government subsidies are lifted.

The AOP's efforts will be met with swift and growing rivalry from a range of companies, including some of the biggest names in British retailing.

Among these are:

- Ratners, Britain's second largest jewellery chain, which is launching optical shops within its outlets throughout the country. Ratners plans to offer glasses and frames starting at £12.95.
- Debenhams, one of the leading UK stores groups, which is planning to establish a chain of optical shops through the acquisition of independent optical practices, as well as setting up shops under the name Hans Anders.
- Burton, another large UK retailer, which is negotiating with some independent opticians about establishing a chain of fashion spectacle concessions within its shops.
- Boots, the retail chemists, which will have an optical service in 40 of its stores by the end of this week, with plans for extending the service nationwide.
- A spate of new optical companies, including For Eyes and Specialeyes, which have been floated on the London over-the-counter market. These companies have been specialising in fashionable spectacles in an attempt to widen the market.

Dollond and Aitchison, the largest optical retailing chain in the UK, has already opened the country's first optical department store.

The AOP predicts that, while prices for average lenses and spectacles will fall due to the competition, prices for those with more complex needs will rise.

Britain urged to follow U.S. energy saving methods

BY IAN HARGREAVES

BRITAIN should follow the U.S. example and encourage the development of companies whose main business is to supply risk capital for energy conservation projects, a report published today argues.

The report, one in a series of Lessons from America published by the Association for the Conservation of Energy, says there are now 200 companies in the U.S. supplying that type of third-party finance in the energy conservation field – a market worth over $250m a year.

Third-party financing involves a specialist energy conservation company identifying on behalf of a client a fuel-saving project and putting up the capital to carry it out. In return, the conservation company receives a given percentage, normally half, of the value of the fuel saved by the investment. Alternatively, the deal may take the form of a leasing agreement.

The advantages of the approach are that companies need not divert productive capital to energy conservation, which research shows to be a low priority in corporate budgets.

Since 1981, the number of U.S. companies specialising in energy service has risen from around 20 to 200. One company, Time Energy, established in 1978 by six people, has grown since then to employ a staff of 200 people.

Some privately owned utilities have also set up energy service subsidiaries. They include Washington Gas, Potomac Electric Power, Central Hudson Gas and Electric, Northern States Power and Portland General Electric.

Utilities have seen financing energy conservation as a means of establishing profitable businesses outside their highly regulated fuel sales activities. Some utilities, however, have entered the field to contain demand for power and so reduce their need to invest in new generating plant.

The report acknowledges that there are some difficulties in the development of third-party finance. It suggests that governments should play a role in developing standard contracts for the residential market.

Lessons from America no. 3; Association for the Conservation of Energy; 9 Sherlock Mews, London W1M 3RH.

Lord Beeching, ex-chairman of BR, dies

LORD BEECHING, former chairman of the British Railways Board, who died on Saturday aged 71, was the first man to bring professional management principles to the running of an outdated publicly-owned industry.

He left his directorship of ICI to become the first chairman of BR (previously the British Transport Commission) in 1961 at a controversial salary of £24,000 a year. He produced the historic Beeching Report, which was to gain him a reputation in popular legend as the railways' axeman.

His plan, which aroused the anger of unions, railway enthusiasts, Labour politicians and people living in remote villages, and triggered strikes by railmen, called for the closure of 2,363 passenger stations, the withdrawal of 5,000 route miles and services and the loss of thousands of jobs.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Bekaert's diversification

Not content to be a minor player

Paul Cheeseright on the Belgian group's search for new products

MINUTE steel fibres, about *one-tenth of the thickness of* human hair, are to be worked into the textile of the heatshield on the engine of the next U.S. space shuttle.

This is the high technology end of steel wire making—basically drawing steel through machines so that it becomes finer and finer, eventually to *end as mesh fencing or springs* or brushes or TV components. It is the result of development by Bekaert, the Belgian group which is the major independent European producer in the sector.

But, reflect executives at Zwevegem, the Flanders village where the business started over a century ago, it is not exactly volume business. And new lines of volume business are what the group constantly seeks. It can spend 10 years developing a product which will make money for it for 40. It has been making barbed wire since 1880.

To be sure, profits are rising after a tumble in the early years of the recession to near breakeven during 1981: BFrs 759m in 1982, BFrs 1.78bn in 1983 and BFrs 1.49bn (£20.1m) in the 1984 first half.

Yet the basic wire and wire products business—fencing and *so on—is stagnant* and new producers in developing countries are entering the market.

The other main line of business—steel cord to reinforce rubber, *mainly radial tyres—is* expected to reach maturity by *the end of the decade.*

This does not signify imminent colapse, but it does mean a search for new busines. One route is to develop new lines out of traditional core products and Bekaert has done *this by moving into filtration. It* has also developed the use of metal fibres in textiles which need anti-static qualities.

The other way is diversification. Bekaert's approach to this reflects the generally cautious manner in *which the business*, still controlled by the founding family, is run; investment is financed out of profits and it eschews hi-h gearing.

Thus, Bekaert is not rushing off to buy haut couture houses or *supermarket chains. It is*, like everybody else, seeking high *technology business with* rapid growth prospects. It will buy in high technology with which it is not immediately familiar and seek to complement that with its own knowledge of industry as producer and supplier.

The group is not interested in business which will leave it as a minor player. "You need *to be sector leader for it to be* worthwhile," says one senior executive.

Its approach is to start with a small acquisition or a joint venture. Bekaert is prepared to put up funds, but small and medium-sized concerns are cheaper and easier to direct. After growth has been set in *train, then there is scope to* acquire a bigger concern in the relevant sector.

There is little point in nursing along a company for years, Bekaert believes. If profits do not emerge in about three years then there is a strong case for scrapping the project.

Systematic and opportunistic

With these thoughts in the background, Bekaert set up a *special unit, headed by Carl-Olof* Henrikson who was brought in from Sandvik, the Swedish cemented carbide and specialist steels group.

The unit has been systematic in carefully surveying distinct *sectors and opportunistic in* the sense of finding collaborators on an informal basis.

The three sectors covered by the unit's brief for diversification are new materials; products which recognise objects and *enable an automated fatcory or* automated materials handling system to be run; and electronics through the production of computer peripheral equipment.

Since last summer Bekaert *has bought Omag Composites*, changed its name to Bekaert Composites and plunged into the design and manufacture of reinforced plastic components. But the newest offspring is a joint venture company called Computer Identics BV, barely three months old in its Bekaert *incarnation.*

This development arose because the group was interested in the *technology associated* with bar coding—the black stripes seen, for example, on a jar of jam—and knew that it was a key to the automation process.

Bekaert was aware of the principles invilved in factory automation. It knew how factories worked — not only did it have its own, but as an industrial *supplier it also knew how the* factories of others worked. It studied the identification and recognition sector and informally began to sound out companies with the scanning technology about collaboration.

In June last year Henrikson heard about Computer Identics Corporation of Massachusetts. A week later, Dirk Marescau, his associate, was at a trade fair in Atlanta making the first contact with the company.

At *that* stage the American company had a European presence, but was not happy about its distribution arrangements. Furthermore, it needed money for development in the U.S. where the market was growing 100 per cent a year.

Marescau commissioned a study of the bar coding market from Booz Allen Hamilton, the *management consultants. That* was delivered in two months. It put Computer Identics into its market context.

"Based on that we approached CI and set out Bekaert strengths," say Marescau. A *joint venture was proposed*—Bekaert 60 per cent and CI 40 per cent—to develop the European market. In November letters of intent were exchanged and CI took part in the first scanning technology *exhibition ever held in Europe*, at Amsterdam, making the point that it was staying in the market. A month later the contracts were signed.

The name Computer Identics was retained for the joint *venture, because it meant some*thing in a market which is fragmented but stabilising. Booz Allen had shown that the main competitors were Intermec and Symbol Technologies, both from the U.S., and Datalogic *of Italy.*

Baron Antoine Bekaert (left) hands over the chairmanship of Bekaert to Jean Charles Velge in May although he will retain the title of honorary chairman while pursuing other interests. Both are grandsons of founder, Leon-Leandre Bekaert

Bekaert is aiming strictly at the industrial sector, not the static retailing market. It is *using bar coding as a means* of increasing productivity in plants with specific problems and sees its objective as building on a customer base which already includes BMW and Siemens in West Germany, *IBM in Scotland and Hachette* in France.

France, Germany and the UK are the main target areas, and Marescau, on the basis of his previous experience working with U.S. products from *Donaldsons, the air filter* concern, believes that Belgium is the best place to be based because of its neutrality.

Bekaert is spending $500,000 on building up a basic stock of Computer Identics hardware. "*We buy from the U.S. and* take on all the liabilities—distribution, servicing and so on—and sell at what the market will bear," says Marescau.

The business plan calls for manufacturing in Belgium of *the recognition equipment*—scanners, portable units, decoders—by the end of the year. The U.S. product cannot simply be reproduced: changes have to be made to compensate for different voltage, laser scanning *devices need to meet local type* approvals.

"You start with assembly—you don't need an extensive manufacturing plant. And there's a high amount of outside buying of components," *says Marescau.* "*But* we plan technical development for Europe that the U.S. will take," he adds.

The objective is $10m sales in five years. Bekaert wants a 20 per cent market share in Europe, but acknowledges that this is difficult to quantify because nobody knows how the market will develop. At the *moment continued orders are* worth about $150,000.

Marescau calls that $10m target "peanuts for Bekaert," (1984 first half group turnover was $236m), but points out that the venture was receiving a lot of management attention.

"It's relatively small too in terms of Bekaert's diversification objective, which is about ten times as high. But it will prove we can diversify in an area far from Bekaert technology," he maintains.

In line with Bekaert's approach, there is no feeling that this sort of venture is an escape from the traditional wire and steel cord business. There are two reasons for this.

First. Bekaert believes that if a company cannot run its own business properly, then there is no hope of successful diversification.

Second, to finance the diversification—so that in the Bekaert case a substantial portion of profits will come from new products by the 1990s—revenue has to be increased from the basic products. So that means investment to achieve higher productivity as the market gets *rougher.*

U.S. wage setting

Labour costs hold the key

Terry Dodsworth on a 'fundamental change' in pay patterns

U.S. CORPORATIONS have responded to the two sharp economic recessions since 1980 with a radical change in wage-setting techniques, says a new report from The Conference Board, the privately funded business research and information organisation.

In a survey covering 778 businesses, the board found that *companies have made a decisive* shift away from the industry-wide wage systems of the 1970s, *in which* companies tended to base compensation levels on the going rate for the sector.

"Corporations have switched their wage-setting policies from imitation of other companies' wage increases towards internal *criteria," it says.* "*Under* growing competitive pressures, companies now base wage changes on labour cost per unit of output, and on expected profits."

The report argues that this "fundamental change" in wage patterns *has contributed to* continuing wage moderation, "even after two years of strong economic recovery." It also suggests that:

- In union bargaining, companies that were inclined to *grant more liberal* health benefits and more time off with pay in the late 1970s are now demanding — and getting — reversals in these two benefit areas.
- Companies that share inform*ation on business performance* with union employees report a higher level of morale in unionised units.
- Companies that arrange group performance feedback on output level and quality report *a higher level of productivity* and greater employee acceptance of new technology.
- Operating line management, as *opposed to staff, is* increasingly involved in human resource planning and development.

The Conference Board survey follows a similar exercise in 1978, when companies expressed overall satisfaction with their labour relations. This mood, says the board, was broken within three years when major changes in union negotiations began to develop.

Competition

The report argues that the driving force behind this change has been the growth of competition, both from domestic and international companies, and from the impact of deregulation. It quotes a number of companies *which cite the* pressures of competition—pressure that has persisted, it says, long after many economists expected the normal cyclical recovery in the economy to stimulate wage imitation (catch-up efforts) and inflation.

The report suggests that the two recessions of 1980 and 1981-82 may have been the decisive factor in tipping companies towards the new emphasis on their wage-setting systems.

"A general recession following the 1980 recession *may have* cracked the inertia of many employee-relations and wage-setting conventions," it says. "Some companies were prodded to change their standardised thinking for the first time in decades."

A second factor was a shift of power to the disadvantage of the big trade unions, as massive unemployment made it possible to attempt a variety of strategies either to avoid unions, outmanoeuvre them, or to persuade them to become more co-operative.

As a result of these labour *market pressures, companies* have greatly changed their methods of wage bargaining, says the report. "Concession bargaining" (broadly defined as agreements in which unions surrender previous rights) has taken hold, along with two-tier wage scales (bringing in new employees at much reduced rates), reduced time off and deferral of some fringe benefits.

"Now, the pre-eminent wage influence ... is labour cost — a factor of little importance, especially to bargainers for individual plants, five years before," the survey states.

Finally, The Conference Board contends that there is a move in both the unionised and non-unionised sectors towards more information sharing and participative types of shop-floor management. In both cases, management claims positive results, although these have been more pronounced in non-unionised plants.

In conclusion, it argues that if the U.S. were to adopt an industrial policy of restraint on competition in some industries (with producer protection or regulation), the pressure to innovate in labour relations would lessen. But even if that were to happen, the structure of industry and the new methods of labour relations and wage patterns could not revert to their former shape.

Business courses

Strategic investment decisions, London. May 13-17. Fee: £975. Details from Gaye Gresham, London Business School, Sussex Place, Regent's Park, London NW1 4SA. Tel: 01-262 5050.

Communications in the UK—the challenge of choice, London. April 24-25. Fee: £460. Details from The Financial Times Conference Organisation, Minster House, Arthur Street, London *EC4R 9AX. Tel: 01-621 1355.* Telex: 27347 FTCONF G.

General manager programme, Kent. April 13-May 3. Fee: £2,250. Details from Client Services Director, Sundridge Park Management Centre, Bromley, Kent BR1 3TP. Tel: 460 8585.

Incentive contracting, London. April 16-17. Fee: £414. Details from Miss J. K. Van Wycks, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London EC1A 2QT. Tel: 01-404 4756. Telex: 896827 (quote reference 1202).

Executive secretaries, London. April 15-17. Fee: £375 + VAT. Details from Monadnock International, 79 St John Street, London EC1M 4DR. Tel: 253 5909. Telex: 299180 MONINT G.

Field sales management, Herts. April 22-26. Fee: £350 + VAT. Details from InTech Training Ltd., PO Box No. 2, Welwyn Garden City, Herts AL8 7BX. Tel.: 07073 20044.

Pricing strategies and tactics, Brussels. May 6-10. Fee: Non members BFr 68,000; Members (AMA/I) BFr 61,000. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19.11. Telex: 21.917.

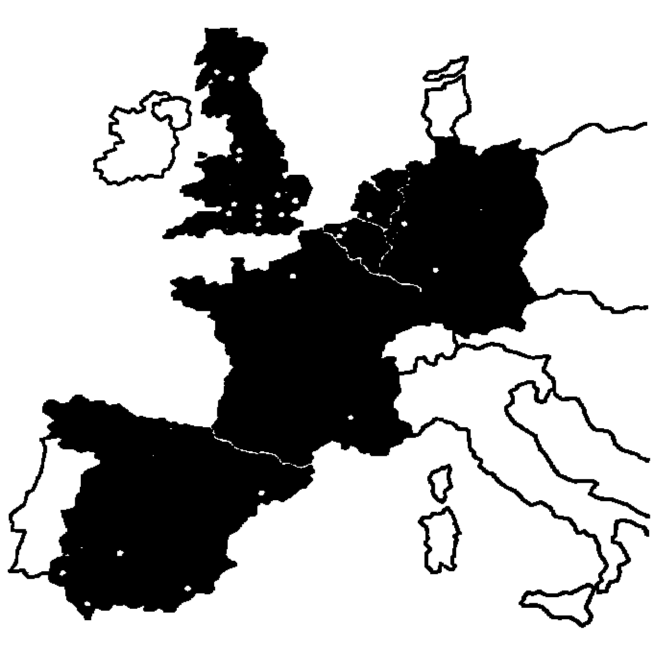
Performance analysis and productivity, London. May 14-15. Fee: £190. Details from Nigel Meade, Department of Management Science, Imperial College, Exhibition Road, London SW7 2BX. Tel: 01-589 5111, ext 7123.

Blagden Industries PLC

Offer for Sale by N. M. Rothschild & Sons Limited

of 14,950,000 Ordinary Shares of 25p each of which at least 9,000,000 Ordinary Shares of 25p each will be sold at the minimum tender price of 112p per share and up to 5,950,000 Ordinary Shares of 25p each are reserved for sale at the Striking Price (being not less than 113p per share),

the price tendered being payable in full on application



● Containers, Chemicals, Plastic mouldings, Protective equipment, Electroplating, Transformers.

Directors and Advisers

Directors
Albert Ronald Sparrow, F.C.A. (*Chairman*)
David Tecwyn Wilkinson (*Managing Director*)
Robin James Buckland
Edward Joseph Bagley, B.E.E. (U.S.A.)
*Frederick John Briggs
David Richard Stewart Walde, B.A.
Michael James Witcher, T.D., B.Sc.(Econ)
*James Victor Risk (U.S.A.)
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Gerald Lance Levine, LL.B., F.C.A.

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Key Information

The following information is derived from, and should be read in conjunction with, the full text of this document.

Business
The new Blagden Group is in the business of manufacturing and reconditioning drums and casks principally for supply to the chemical and petrochemical industries. As a result of the acquisition of the European Businesses, completed on 22nd March, 1985, a major extension of the size and geographical spread of the former Blagden Group's activities has been achieved.

Other activities of the new Blagden Group include the moulding of plastic products, chemical manufacture and trading and the manufacture and distribution of industrial protective and electrical equipment.

Pro Forma Trading Record
The new Blagden Group's pro forma consolidated turnover and operating profit of its continuing businesses together with its share of the results of Femsa and Fembasa for the five financial years ended 30th December, 1984 are as follows:

	Turnover	Operating profit (see above)
	£000	£000
1984	119,082	7,639
1983	108,481	7,148
1982	97,709	6,445
1981	91,781	5,577
1980	93,158	5,766

The new Blagden Group's pro forma consolidated profit before taxation (adjusted as explained in Appendix I) for the financial year ended 30th December, 1984 has been calculated to be £6,225,000.

Offer for Sale Statistics
The following statistics are based on the minimum tender price of 112p per Ordinary Share and on the pro forma consolidated profit and loss account for the year ended 30th December, 1984 and the pro forma balance sheet at that date for the new Blagden Group.

Market capitalisation	£32.8m
Pro forma earnings per share for the year ended 30th December, 1984	14.0p
Price earnings multiple based on the above pro forma earnings per share	8.0 times
Net dividend per share in respect of the year ended 30th December, 1984	7.2p
Gross dividend yield based on the above dividend per share	9.2 per cent.
Dividend cover based on the above dividend and pro forma earnings per share	1.9 times
Pro forma net tangible assets as at 30th December, 1984	£35.4m

Share Capital

Authorised		Issued and fully paid
£9,500,000	Ordinary Shares of 25p each	£7,331,576

The 14,950,000 new Ordinary Shares now offered for sale are included in the above issued and fully paid share capital. They rank pari passu in all respects with the other issued Ordinary Shares in Blagden, except that they will not rank for any dividend or other distribution paid or payable in respect of the year ended 30th December, 1984.

Indebtedness

At the close of business on 22nd February, 1985, the new Blagden Group had outstanding:

	£000
Term loans—secured	840
—unsecured	929
Short term loans and overdrafts—secured	1,160
—unsecured	6,168
Obligations under finance leases	130
	9,227

Save as disclosed above, and excluding intra-group liabilities, at the close of business on that date the new Blagden Group did not have any loan capital (including term loans) outstanding or created but unissued or any outstanding mortgages, charges or debentures or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments or guarantees or other material contingent liabilities.

The new Blagden Group had cash balances and short-term deposits amounting to £3,011,000 at the close of business on 22nd February, 1985.

All amounts in foreign currencies have been translated at rates of exchange ruling at the close of business on 22nd February, 1985.

Although at 22nd February, 1985 the European Businesses had not been acquired by Blagden, in the above statement "the new Blagden Group" includes the European Businesses (excluding the related companies Femsa and Fembasa) as if they had already been acquired by that date and "intra-group liabilities" should be interpreted accordingly.

The new Blagden Group will draw down an unsecured term loan of up to £9 million to satisfy the cash element of the consideration payable to City and Rafim Inc. for the acquisition of the European Businesses. This borrowing has not been included in the indebtedness figures above.

Definitions

"Blagden" or "the Company"	Blagden Industries PLC
"the former Blagden Group"	Blagden and its subsidiaries before the acquisition of the European Businesses
"the new Blagden Group"	Blagden and its subsidiaries including the European Businesses
"City"	City Investing International, Inc.
"Rafim Inc."	Rafim Industries Inc.
"City Investing Company"	City Investing Company, Inc. of New York
"City Investing Group"	City Investing Company and its subsidiaries, including City and Rafim Inc.
"TMT"	T.M.T., N.V.
"Verstraete"	N.V. Etabl. J. Verstraete S.A.
"Plametha"	Zuid-Nederlandse Metaalwarenfabriek Plametha B.V.
"Toleries"	Toleries Rhodaniennes S.A.
"Rafim GmbH"	Rafim Industries GmbH
"DSP"	DSP-Verwaltungs-GmbH
"Schmalenbach"	August Schmalenbach GmbH & Co oH
"Femsa"	Fabricacion de Envases Metalicos, S.A.
"Fembasa"	Femba, S.A.
"the European Headquarters"	The administrative headquarters of Blagden's European Container Division, situated in Belgium
"the European Businesses"	Blagden's direct and indirect interests as hereinafter described in TMT, Verstraete, Plametha, Toleries, Rafim GmbH, DSP, Schmalenbach, Femsa, Fembasa and the European Headquarters acquired from City and Rafim Inc. pursuant to the Agreements dated 6th March, 1985 hereinafter referred to
"Ordinary Shares"	Ordinary Shares of 25p each in Blagden
"'A' Ordinary Shares"	*A Non-Voting Ordinary Shares of 25p each in* Blagden which were converted into Ordinary Shares on 8th March, 1985
"new Ordinary Shares"	Ordinary Shares of 25p each in Blagden allotted to City on 22nd March, 1985 as part consideration for the acquisition of the European Businesses
"Shareholders"	Holders of Ordinary Shares
"Rothschilds"	N. M. Rothschild & Sons Limited

Background To The Offer For Sale

Blagden is the public quoted holding company of a group which is engaged in the manufacture and reconditioning of containers, the manufacture of plastic products and protective equipment, and the manufacture, distribution and trading of chemicals.

Prior to 6th March, 1985 City owned 34.6 per cent. of Blagden and with Rafim Inc. held all the European Businesses which now comprise the majority of the new Blagden Group's European Container division. City and Rafim Inc. are wholly owned subsidiaries of City Investing Company. The Stockholders of City Investing Company, which at 31st December, 1983 reported Shareholders Equity of approximately U.S.$1.6 billion, approved a plan in *December, 1984* for the distribution of its net assets through its voluntary liquidation.

On 4th March, 1985 it was announced that the negotiations, which have culminated in the acquisition by Blagden of the European Businesses, were taking place and, as a result, The Stock Exchange granted a temporary suspension of the listing of Blagden's then issued Ordinary Shares (the middle market share price on suspension being 129p per share). It is expected that this suspension will be lifted on 3rd April, 1985 and that dealings in the Ordinary Shares will recommence on that date.

On 8th March, 1985, it was announced that agreement had been reached between Blagden, City and Rafim Inc. for the acquisition of the European Businesses subject, inter alia, to approval by Blagden Shareholders. It was further announced that City has sold its shareholdings in Blagden, comprising 3,829,000 Ordinary Shares and 1,131,000 'A' Ordinary Shares, to Rothschilds, who placed the shares with a number of investors at 112p per share on the same date. Conversion of all of the 'A' Ordinary Shares into 1,131,000 Ordinary Shares took place on 8th March, 1985. Application has been made to the Council of The Stock Exchange for such shares to be admitted to the Official List. Details of the interests which comprise the European Businesses are set out in Part I of Appendix III.

Approval by Blagden's Shareholders of the acquisition of the European Businesses was given at an Extraordinary General Meeting of Blagden held on 22nd March, 1985 and the acquisition was completed on the same date.

The total consideration for the acquisition by Blagden of the European Businesses was the issue, credited as fully paid, by 14,950,000 new Ordinary Shares in Blagden and £9 million in cash, subject to reduction as further described below. In addition, City will be entitled to a special distribution from the European Businesses of £200,000.

City has sold the 14,950,000 new Ordinary Shares received as part consideration for the acquisition by Blagden of the European Businesses to Rothschilds which now offers them for sale. At least 9,000,000 of the new Ordinary Shares will be sold at the minimum tender price of 112p per share and up to 5,950,000 are reserved for sale at the price determined by Rothschilds to be the highest price ("the Striking Price") at which sufficient valid applications are received to cover 5,950,000 shares (or the nearest lesser convenient number). Any amount by which the total proceeds of the Offer for Sale exceed £16,744,000 will accrue to City, but City has agreed to pass on 1/6th of that amount to Blagden by way of reduction of the cash element of the consideration.

Of the new Ordinary Shares which are to be sold at the minimum tender price of 112p per share up to 4,500,000 new Ordinary Shares are reserved for sale to Shareholders with registered addresses in the U.K., who were on the register of members at the close of business on 20th March, 1985. Any reserved shares not taken up under this *arrangement will be available to meet public applications.*

Application has been made to the Council of The Stock Exchange for the 14,950,000 new Ordinary Shares in Blagden, which form the subject of this Offer for Sale, to be admitted to the Official List. Dealings in those and all Ordinary Shares in issue are expected to commence on 3rd April, 1985.

After completion of the Offer for Sale, City Investing Group will not have any shareholding interest in Blagden or any of its subsidiaries.

HISTORY
Introduction
The history of the container businesses of the former Blagden Group in the U.K. and of City in Europe is one of long-term and steady expansion. The association between the former Blagden Group and City dates from 1968 when they entered into a joint venture, through Rheem Blagden Limited, combining their respective steel drum and plastics interests in the U.K. Since then, they have been profitable and successful business partners. City has decided, for reasons unconnected with the performance of its European container interests, to distribute its net assets, and the successful negotiation of the sale of the European Businesses to Blagden was substantially assisted by the strength of this partnership and Blagden's knowledge of City's container businesses.

A more detailed history of the former Blagden Group and of the European Businesses is set out below, together with a description of the important stages in the development of the relationship between Blagden and City.

The former Blagden Group
The former Blagden Group was founded in 1862 by Mr. W. G. Blagden, who traded as a chemical merchant and agent in London. This business was incorporated in 1921 as a private company called Victor Blagden & Co. Limited.

The business expanded into the drum market in 1928 by embarking on the newly conceived idea of reconditioning steel drums; it was a pioneer in this field in terms of both the processes employed and its plant.

In 1948 the former Blagden Group diversified further by commencing the production of new steel drums. This diversification was brought about by the acquisition of Victor Blagden (Manchester) Limited and in 1961 a merger with London Containers & Noakes Limited resulted in the former Blagden Group becoming involved in the manufacture of smaller steel drums and subsequently in plastic mouldings, such as liners and drum fittings for its containers.

The former Blagden Group's association with City began in 1968 when Blagden and City set up a joint venture to combine their respective U.K. steel drum and plastics interests. The form of this joint venture was a company called Rheem Blagden Limited which was 58 per cent. owned by Blagden and 42 per cent. owned by City, which latter interest was exchanged for shares in Blagden in 1984.

Rheem Blagden Limited's plastics activities were strengthened in 1977 by the acquisition of W. W. Ball & Sons Limited, a listed company involved in the manufacture of plastic products, supported by its own toolrooms, together with electroplating and electrical engineering businesses.

Prior to completion of the acquisition of the European Businesses, the former Blagden Group's only activity outside the U.K. was through its 80 per cent. owned Belgian subsidiary, Verstraete, which was acquired in 1973. The remaining 20 per cent. interest in Verstraete is held by TMT and is one of the interests comprising the European Businesses.

The former Blagden Group's business has expanded its non-container activities by two significant acquisitions:—

(a) Martindale Electric Co. Limited, which was acquired in 1966 and is engaged in the manufacture of industrial protective equipment and electrical testing apparatus; and

(b) The Chemical Supply Group of companies which was acquired in 1971 and is involved in chemical manufacture and trading.

The European Businesses
Prior to 1968, City Investing Group owned none of the interests which comprise the European Businesses. In 1968, it acquired Rheem Manufacturing Inc., a U.S. company with interests in Spain (Femsa and Fembasa), Belgium (TMT) and the U.K. Later in 1968 City and Blagden entered into the U.K. joint venture referred to above. Subsequently, City Investing Group has expanded its European Container businesses, perceiving significant potential in supplying the growing European petrochemical and chemical operations. Accordingly, in 1969 City Investing Group acquired Toleries, a French company producing steel containers near Avignon, in Southern France. A major new plant was opened in the north of France in 1979.

In 1971, City Investing Group acquired control of TMT and since then has increased its holding in that company to 99.21 per cent. TMT, a Belgian company based in Ghent and manufacturing 210 litre and intermediate sized drums, was founded in 1919 and originally manufactured stove pipes and pipe fittings. It commenced the manufacture of steel drums and pails in 1933 and of plastic packaging in 1972. Prior to 1983, it operated a central heating radiator and beer barrel plant in Brussels but, due to a decline in the beer barrel market and severe competition in the central heating radiator market, these operations were closed down in 1981.

In 1972, TMT acquired one of its major competitors, Plametha, a Dutch company making drums, pails and tinplate cans. Plametha was founded in 1942 by the Freyters family and then manufactured farm equipment. It began steel packaging and container business in 1952.

Schmalenbach, a German partnership engaged in the production of 210 litre and intermediate sized drums, was acquired in 1976.

In 1985, City Investing Group increased its direct and indirect interests in the two related Spanish companies, Femsa and Fembasa, to 50 per cent. and 60.9 per cent. respectively. The validity of the transaction with respect to Femsa has been questioned, as further described in paragraph 3 of Appendix V.

Development of the relationship of City and Blagden
As mentioned above, the formal business association of the former Blagden Group and City was established in 1968 through Rheem Blagden Limited, a joint venture combining the U.K. steel drum and plastics interests of the former Blagden Group and City.

This association proved most satisfactory. In 1984, however, it was agreed that the two-tier structure of Blagden and Rheem Blagden Limited inhibited flexibility and complicated decision taking within the former Blagden Group. As a result, Blagden acquired City's 42 per cent. interest in Rheem Blagden Limited for new shares in Blagden. Accordingly, City's interest in Blagden, taking into account its then holding of 1,273,000 Ordinary Shares, was increased to 34.6 per cent. of the enlarged issued share capital of Blagden. It was agreed at that time that City would not seek to increase its shareholding interest in Blagden, without the agreement of the Board of Blagden.

Throughout their long association, Blagden and City have had a rewarding business relationship sharing similar commercial philosophies and, on many occasions, pooling their technological resources and management expertise.

Mr. J. V. Risk, President of City, and Mr. M. Aerts, Senior Vice-President (Europe) of City, became non-executive Directors of Blagden in 1983 and 1984 respectively. Messrs. Risk and Aerts will remain on the Board, with Mr. Aerts as an executive Director with responsibility for the European Container division. Mr. A. R. Sparrow, Chairman of Blagden, was made a non-executive Director of TMT in 1983.

BUSINESS
It is the intention of the Board of Blagden that, following the acquisition of the European Businesses, the new Blagden Group should operate through five divisions: U.K. Containers, European Containers, Plastics, Chemicals and Protective Equipment. A breakdown of turnover by division of the new Blagden Group for the three financial years ended 30th December, 1984 is set out below.

	1984	1983	1982
	Turnover		
Division:	£000	£000	£000
U.K. Containers	26,739	25,247	24,592
European Containers	51,615	45,574	40,239*
Plastics	15,668	15,330	13,173
Chemicals	21,529	19,312	16,696
Protective Equipment	3,531	3,118	3,009
	119,083	108,481	97,709

*Including turnover of £1,212,000 relating to an operation discontinued in 1982.

U.K. Container Division
The U.K. Container division produces steel and plastic containers.

In 1984, over 1 million 210 litre steel drums (approximately 17 per cent. of total U.K. output) were produced from two plants located in Bristol and Manchester. Production is highly automated and the latest helium leak testing equipment has recently been installed to ensure compliance with new regulations governing the transport of hazardous chemicals.

The division produces 210 litre plastic containers at its East London factory together with a wide range of steel and plastic kegs and pails. At Leith, the division operates a cooperage, supplying and repairing casks for the Scotch whisky industry.

The division also operates a steel drum reconditioning business from five sites in the U.K. (Avonmouth, Barking, Glasgow, Huyton and Manchester). Drum reconditioning involves the cleaning and rebuilding of used drums either on behalf of customers or by way of purchase and resale. In 1984, approximately 2.25 million used drums were processed at these U.K. sites and at that of Blagden's subsidiary, Verstraete, in Belgium which will form part of the new European Container division.

Eight customers accounted for around 38 per cent. of the division's turnover in 1984. The remaining 62 per cent. is represented by some 650 customers, who come from many market sectors but especially from the petrochemical, chemical, paint and food industries.

European Container Division
The new European Container division of the new Blagden Group will comprise the European Businesses together with Verstraete which is now wholly owned. The division will represent a major force in the European drums and pails industry, selling drums and pails ranging in size from 10 litres to the standard oil drum of 210 litres. The 210 litre oil drum is the major product, accounting for approximately 70 per cent. of total turnover of the European Businesses (excluding Femsa and Fembasa) in 1984. Customers are predominantly from the petrochemical, chemical, paint and food sectors.

While no independently verifiable statistics exist, management believes that the estimated average market share of the European Businesses' 210 litre drum business is approximately 18 per cent. of the total volume of sales to the countries in which the European Businesses trade, which is estimated to be 23 million drums.

With eight strategically sited manufacturing plants and four assembly plants located in five countries, the European Businesses have built up a significant presence in all their markets in Europe maintaining throughout a good reputation for product quality and customer service. They benefit especially from the ability to establish a common strategy for the efficient supply of containers to multinational customers at their various European locations. They also benefit from the research and development facilities at Ghent which have improved container design, development and production technology.

Production facilities are, for the most part, modern, highly automated and well maintained. In particular, following significant damage to the Duisburg plant caused by fire in 1984, a very efficient replacement plant is being installed and should be operational in April, 1985.

The European Businesses, by reason of their combined size and strength, exercise considerable purchasing power for raw materials especially for steel. They are able to take advantage of bulk purchasing opportunities and, through a gradual technical standardisation of products and production methods, they are increasingly able to effect cost savings through inter-plant supplies. The European Businesses are independent suppliers to their markets and do not trade directly or indirectly with each other to a material extent. None of the European Businesses depends in any way on the assets of the other companies in the City Investing Group.

While the companies which comprise the European Businesses function autonomously, each company acts under the direction of the European Headquarters which is located in Brussels and headed by Mr. M. Aerts.

A more detailed description of the component parts of the European Businesses is set out in Part I of Appendix III.

Plastics Division
The Plastics division manufactures an extensive range of plastic products and components. It provides a comprehensive service encompassing product design and development, tooling, moulding and assembly of components, all to a high standard. Plants are located at Billericay and Clacton and in East London.

The division's customers are engaged in the automotive, building, television and consumer goods industries. Around 47 per cent. of the division's output goes to the motor industry and the disappointing results achieved overall in recent years have been caused in part by the problems of that industry. Additional business, however, has been sought in more profitable areas such as the building industry (lavatory seats) and consumer areas (horticultural and pet products).

Adjoining the plastics plant at Billericay are a small but successful electrical transformer business and an unprofitable electroplating activity. The latter has been adversely affected by a downturn in demand for its bar plating business from major customers in the heavy engineering industry. The activity has been reorganised and substantial improvements effected.

Chemical Division
The Chemical division is engaged in chemical manufacture and merchanting. It manufactures formaldehyde-based products and resins. A 30,000-tonne formaldehyde plant incorporating the latest technology was built at Haverhill in Suffolk in 1981 and such was its success that a 15,000-tonne extension was added in November, 1984. The chemical merchanting operation is based at Croydon, with blending, repackaging, bulk storage and warehousing facilities also at Haverhill.

The formaldehyde-based products are supplied to some 50 customers in the plastics, rubber, surface coatings and chipboard industries and for agricultural, pharmaceutical and other purposes. The resin plant supplies some 150 customers, engaged mainly in the surface coatings industry. The chemical merchanting business trades in a wide variety of chemicals and represents some 25 major overseas principals and suppliers within the U.K. and abroad.

Protective Equipment Division
The Protective Equipment division operates through two companies located in North West London, Martindale Protection Limited and Martindale Electric Co. Limited, which together supply over 3,000 customers in the U.K. and abroad. Martindale Protection Limited is one of the leading manufacturers of respiratory protective products in the U.K. and Martindale Electric Co. Limited is well known and respected in the electrical maintenance field.

The national and international interest and concern for the safety of workers should ensure the continued growth of markets for the division's products. In addition, there is scope for a significant increase in export business.

MANAGEMENT AND EMPLOYEES
Senior Management
The Directors of Blagden believe that the new Blagden Group has a strong management team with appropriate depth in all key areas. The close relationship between Blagden and City before the acquisition by Blagden of the European Businesses has facilitated the formation of the new Blagden Group's senior management team. Details of the Directors of Blagden are set out below.

Ronald Sparrow, FCA — aged 63, is Executive Chairman. He joined the group as Chief Accountant and Company Secretary in 1950, was appointed to the Board as Finance Director in 1959 and became Chairman in December, 1981. In addition to his duties as Executive Chairman, he is specifically responsible for group finance and administration.

Tecwyn Wilkinson — aged 53, is Group Managing Director. Before joining the group in January, 1985, he was an executive with Guest Keen & Nettlefolds PLC for 16 years, including 10 years as a Divisional Chief Executive. Previously he qualified as a Mechanical Engineer with the Rubery Owen Group, becoming General Manager of their Motor Division.

Michel Aerts — aged 61, is Managing Director of the European Container division and is based at the divisional headquarters in Brussels. After 17 years with the Unilever Group, he joined TMT in 1966, holding a number of administrative positions before his appointment as Chairman and Managing Director of that company. In 1981 he was appointed a Senior Vice-President of City, with direct responsibility for all European operations, including the European Businesses. In April, 1984 he joined the Board of Blagden.

Edward Bagley, BEE — aged 58, is Managing Director of the Protective Equipment division. A citizen of the U.S.A., he has been resident in the U.K. since 1953. With a background in electronics and electrical products, he joined the division in 1963 becoming Divisional Managing Director in 1969. He was appointed to the Board in 1974.

John Briggs — aged 61, joined the Board as a non-executive Director in 1980. He is also a director of Bunzl PLC, Erskine House PLC, and several other public and private companies, as well as being a member of British Rail (Western) Board.

Robin Buckland — aged 54, is Managing Director of the Chemical division. He joined the group in 1945 and gained a wide experience of the chemical business, becoming Shipping Manager in 1955, Trading Department Manager in 1960 and Divisional Director and General Manager in 1966. He was appointed to the Board in 1971.

James Risk — aged 64, was appointed a non-executive Director in 1983. Resident in the U.S.A., he is President of City and is a Director of TMT and Femsa and several other overseas companies.

David Walde, BA — aged 44, is Managing Director of the U.K. Container division. He joined the division as a management trainee in 1963 and, having held a number of positions therein, in 1972 he was appointed a subsidiary company director. In 1979 he became Divisional Manufacturing Director and in 1984 Divisional Managing Director. He was appointed to the Board in 1983.

Michael Witcher, TD, BSc(Econ) — aged 50, is Managing Director of the Plastics division. Before joining the group in 1982 he held executive positions within the Rockware Group of Companies including that of Group Personnel Director and later Managing Director of Rockware Plastics Limited. He was appointed to the Board in 1983.

Employees
During 1984 the businesses (excluding those in Spain) which now constitute the new Blagden Group employed an approximate average of 2,553 employees.

Set out below is an analysis of average number of employees by activity:

	1984
U.K. Container division	732
European Container division (including Verstraete)	773
Plastics division	739
Chemical division	105
Protective Equipment division	126
Head Office	27
Total	2,502

Much effort has been directed towards developing a high sense of teamwork at each plant through the dissemination of information and ideas at all levels. As a result there has been little industrial strife and this has been to the benefit of both the new Blagden Group and its employees.

Executive Share Option Scheme
The Directors of Blagden propose to introduce an Executive Share Option Scheme complying with the conditions for approval by the Inland Revenue pursuant to the provisions of Schedule 10 to the Finance Act 1984. It is intended that a circular giving details of the scheme, and seeking the approval of Shareholders, should be despatched with the Directors' Report and Accounts for the year ended 30th December, 1984. The terms of the proposed Executive Share Option Scheme are summarised in paragraph 8(v) of Appendix V. Copies of the circular will only be available to successful applicants under this Offer for Sale on request (see paragraph 8(vi) of Appendix V).

PRO FORMA TRADING RECORD
In 1981, TMT closed down its businesses making radiators and plastic beer barrels through which it incurred trading losses of over £1.3 million during 1980 and 1981. In 1985, it sold its interests in two companies, as detailed in Part 2 of Appendix III. Excluding its share of the results of the discontinued businesses, the new Blagden Group's pro forma consolidated turnover and operating profit, together with its share of the results of Fernsa and Fembesa, for the five financial periods ended 30th December, 1984 are based on information extracted from Appendix II and Part 2 of Appendix III and are set out below:

	Turnover £000	Operating profit (see above) £000
1984	119,082	7,639
1983	108,481	7,148
1982	97,709	6,445
1981	91,781	5,577
1980	93,158	5,766

Appendix I sets out the full pro forma consolidated profit and loss account of the new Blagden Group for the year ended 30th December, 1984. The pro forma consolidated profit before taxation, adjusted as explained in that Appendix has been calculated to be £8,225,000 and includes the share of the new Blagden Group in the results of the businesses referred to above which were sold in 1985.

The results of the new Blagden Group are significantly affected by the strength of its container customers many of which are major international companies which operate principally in the petrochemical, chemical, paint and food sectors. Since 1981, the new Blagden Group has benefited from the growth in the economies supplied by its customers, as evidenced by continuing yearly increases in turnover and operating profit and its sustained record of cash generated and the level of dividends paid.

Notwithstanding this general trend in the new Blagden Group's business, there have been components of the group which have either increased or decreased their overall contribution in relative terms. In particular, the Plastics division has reduced its contribution and the French business has enjoyed relatively stronger growth owing to an increase in market share from a low base.

DIVIDENDS
The Directors have declared dividends totalling 7.2p per Ordinary Share in respect of the year ended 30th December, 1984. These dividends, at current tax rates, represent a gross yield of 9.2 per cent. on the maximum tender price of 112p and would have been covered 1.9 times by the new Blagden Group's pro forma earnings per share. The Board expects to maintain, on the enlarged share capital, the dividend level paid in 1984 by declaring dividends totalling at least 7.2p per share in respect of the current year.

Dividend payments in recent years have consisted of a first interim payable in October and a second interim payable in April of each financial year. The new Ordinary Shares now being offered for sale will first rank for the interim dividend payable in October, 1985.

PROSPECTS
The pro forma consolidated operating profit and share of the results of related companies of the new Blagden Group in 1984 increased by 7 per cent. from £7,148,000 to £7,639,000 despite a sharp deterioration in the performance of the Plastics division which is receiving the Board's full attention.

Future growth of the new Blagden Group clearly depends upon the continued recovery of the world economy, particularly as it affects its customers in the petrochemical, chemical, paint and food industries. In times of uncertainty in international currency markets, management is unable to predict an overall trend for 1985, especially so early in the financial year.

If economic growth in Europe in 1985 is maintained at the same level as that experienced in 1984, the new Blagden Group, with its widely diversified geographical base, will be in a good position to maintain its growth of business volume and market share and to finance the development of new products which the increasing sophistication and specialisation of its customer industries will demand.

With the exception of Fernsa, trading for the new Blagden Group has opened satisfactorily in 1985, in line with management expectations. Fernsa and Fembesa together contributed less than 3 per cent. of the total pre-tax profits of the new Blagden Group in 1984 and details of the setback in Fernsa's trading for 1985 are given in Part 1 of Appendix III.

The acquisition of the European Businesses is seen by the Board of Blagden to be a unique opportunity to build on the long experience of the U.K. Container division and thereby to become a major European force in an industry by greatly strengthening its overall competitive position. The Board considers that the outlook for the current year for the new Blagden Group as a whole is encouraging.

Appendix I

PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT AND BALANCE SHEET OF THE NEW BLAGDEN GROUP

Pro Forma Consolidated Profit and Loss Account
The consolidated profit and loss account of the former Blagden Group and a pro forma consolidated profit and loss account of the new Blagden Group for the financial year ended 30th December, 1984 are set out below:—

	The former Blagden Group £000	The new Blagden Group pro forma Consolidated £000
Turnover	72,401	119,082
Cost of sales	(58,704)	(96,811)
Gross profit	13,697	22,271
Distribution costs	(4,334)	(6,248)
Administrative expenses	(6,095)	(8,538)
Other operating income (expenses)	239	(39)
Operating profit	3,507	7,446
Share of results of related companies	—	319
Interest and investment income	12	342
Interest payable	(551)	(1,782)
Profit before taxation	2,968	8,225
Taxation	(821)	(4,094)
Profit after taxation	2,147	4,131
Minorities	(47)	(17)
Attributable earnings	2,100	4,114
Extraordinary items	—	1,081
Profit for the year	2,100	5,195
Dividends	(1,032)	(2,109)
Profit retained	1,068	3,086
Earnings per share	14.7p	14.0p

The above pro forma consolidated profit and loss account combines, for illustrative purposes, the results of the former Blagden Group as shown in its 1984 accounts with the results of the European Businesses as shown in the Accountants' Report.

The effects of the consideration to be paid by Blagden for the acquisition of the European Businesses have been accounted for as follows:
(i) Interest has been included for the full year on the maximum cash element of the consideration at the effective average interest rate ruling during 1984. This is on the assumption that this cash element is all borrowed in sterling.
(ii) U.K. tax relief on the additional interest has been allowed at the average rate ruling in 1984 of 46.25 per cent.
(iii) The dividend at the rate announced for 1984 has been provided on the increased share capital.

Pro Forma Consolidated Balance Sheet
The consolidated balance sheet of the former Blagden Group and a pro forma consolidated balance sheet of the new Blagden Group at 30th December, 1984 are set out below.

	The former Blagden Group £000	The new Blagden Group Pro forma Consolidated £000
Fixed Assets		
Tangible assets	14,584	25,754
Investments	33	3,045
	14,617	28,799
Current Assets		
Stocks	11,470	21,105
Debtors	14,384	24,101
Cash at bank and in hand	811	2,505
	26,665	47,711
Creditors: amounts falling due within one year	17,972	27,675
Net Current Assets	8,693	20,036
Total Assets less Current Liabilities	23,310	48,835
Long term debt	75	10,456
Deferred taxation	244	2,273
Provisions and other	191	1,606
Net Assets	22,800	35,500
Capital and Reserves		
Called up share capital	3,584	7,322
Share premium account	417	13,423
Profit and loss account	18,581	14,646
Shareholders' Funds	22,582	35,391
Minority interests in subsidiary companies	218	109
	22,800	35,500

The pro forma consolidated balance sheet above combines, for illustrative purposes, the net assets of the former Blagden Group as shown in its 1984 accounts with the net assets of the European Businesses as shown in the Accountants' Report, adjusted to reflect:
(i) the financing of the acquisition of the European Businesses through the issue of 14,950,000 new Ordinary Shares at the minimum tender price of 112p per share and an increase in long-term debt of £9,700,000. The goodwill arising on the acquisition has been written off against profit and loss account;
(ii) the revaluation of the properties of the European Businesses as set out in the report by King & Company in Appendix IV, which gave rise to a surplus over net book value of £2,350,000; and
(iii) the sale of shares in DFO N.V. to City, the settlement of inter-group balances and the payment of the proceeds by the European Businesses as additional dividends prior to completion.

Appendix II

FINANCIAL INFORMATION RELATING TO THE FORMER BLAGDEN GROUP
(All references to the Blagden Group in this Appendix are to the former Blagden Group as defined in this document.)

During 1984, the Blagden Group acquired the minority interest in Rheem Blagden Limited for shares in Blagden. As a result the 1984 accounts have been prepared using merger accounting principles and the comparative figures for 1983 have been adjusted as if Rheem Blagden Limited had been a wholly owned subsidiary during that period. In the tables below, the 1983 figures are set out as restated, no adjustments have been made in respect of earlier years.

1. Accounting policies
The significant accounting policies adopted in preparing the accounts of the Blagden Group are set out below:—

Basis of accounting
The group prepares its annual accounts under the historical cost basis of accounting.

Consolidation
The consolidated accounts incorporate the accounts of Blagden Industries PLC, its subsidiaries and related companies. Merger accounting principles are applied to those subsidiaries where the transaction meets the requirements of Section 37 of the Companies Act 1981. Other subsidiaries are consolidated from the effective date of acquisition.

All subsidiaries and related companies have accounting periods co-terminous with that of the holding company.

Goodwill
Goodwill, being the excess of the purchase consideration over the fair value of net tangible assets at the date of their acquisition, is written off to reserves in the year in which it arises.

Related companies
The group includes its share of profits or losses of associates (those being related companies in which the group has an interest of 20 per cent. or more of the voting capital and a significant influence in the management.

The group's investment therein is included at cost plus the share of retained profits arising since acquisition.

Turnover
Turnover comprises the invoiced value of goods sold and amounts charged to external customers for services rendered. Taxes levied on turnover are excluded.

Stock valuation
Stocks are valued at the lower of cost and net realisable value, on a basis consistent with previous years. Cost consists of direct material costs and where appropriate an addition for labour, works and administrative overheads.

Depreciation of tangible fixed assets
No depreciation is provided on freehold land. Amortisation of leasehold properties is provided in equal annual instalments over the terms of the leases. With these exceptions, depreciation is calculated to reduce by equal annual instalments the amount of the tangible fixed assets to their estimated realisable value during their working lives and is charged at the following principal rates per annum:—

Plant and equipment	6⅔%—15%
Plastics moulds	25%—33⅓%
Motor vehicles	20%
Freehold buildings	2%

Taxation
Taxation is provided on the basis of the profits included in the profit and loss account adjusted for fiscal purposes.

Provision for deferred taxation is made, using the liability method, for all timing differences except those which, in the opinion of the directors, are not expected to reverse in the foreseeable future.

No provision is made in respect of tax liabilities which may arise in respect of capital gains deferred under Section 115, Capital Gains Tax Act 1979.

Research and development
Research and development expenditure is written off as incurred against profit on ordinary activities before taxation.

Pensions
Pensions for existing employees are funded, at rates determined by independent actuaries, by annual contributions from employees and from participating companies. Company contributions are charged to profit and loss accounts for the period in which they arise. The various schemes are set up under separate trusts and their assets are completely separate from the assets of group companies.

Translation of foreign currencies
Assets and liabilities of the overseas subsidiary are translated into sterling at the rate effective at the balance sheet date and any exchange translation difference arising on consolidation is shown as a movement in reserves. Exchange differences arising from trading operations are accounted for within operating profit in the period in which they occur.

2. Profit and loss accounts
The consolidated profit and loss accounts of the Blagden Group based on the published audited accounts for the five financial years to 30th December, 1984 are set out below:—

	Notes to the 1984 accounts	1984 (52 weeks) £000	1983 (53 weeks) £000	1982 (52 weeks) £000	1981 (52 weeks) £000	1980 (52 weeks) £000
Turnover	1	72,401	67,195	62,176	58,626	60,224
Cost of sales		(58,704)	(54,307)	(50,164)	(46,539)	(47,864)
Gross profit		13,697	12,888	12,012	12,087	12,360
Distribution costs		(4,334)	(4,087)	(3,829)	(3,609)	(3,533)
Administrative expenses		(6,095)	(6,021)	(6,085)	(5,308)	(5,668)
Other operating income/(expense)		239	259	233	(105)	(77)
Operating profit	2	3,507	3,039	2,331	2,665	3,082
Share of results of related companies		—	(3)	7	(3)	(39)
Net interest payable	4	(539)	(431)	(595)	(356)	(452)
Profit on ordinary activities before taxation	1	2,968	2,605	1,743	2,005	2,591
Tax on profit on ordinary activities	5	(821)	(540)	(264)	(785)	141
Profit on ordinary activities after taxation		2,147	2,065	1,479	1,220	2,732
Minority interest	11(b)	(47)	(78)	(147)	(313)	(861)
Earnings attributable to the shareholders		2,100	1,987	1,332	907	1,881
Extraordinary items	6	—	(57)	(134)	(1)	(37)
Profit for the period		2,100	1,930	1,198	906	1,844
Dividends	7	(1,032)	(724)	(639)	(639)	(639)
Retained profit	8	1,068	1,206	559	267	1,205
Earnings per share	9	14.7p	13.9p	12.5p	8.5p	12.7p
Dividends per share		7.2p	6.8p	6.0p	6.0p	6.0p

3. Balance sheets
The consolidated balance sheets of the Blagden Group based on the published audited accounts for the five financial years to 30th December, 1984 are set out below:—

	Notes to the 1984 accounts	1984 £000	1983 £000	1982 £000	1981 £000	1980 £000
Fixed Assets						
Tangible assets	10	14,584	13,477	12,950	13,520	13,375
Investment	11(a)	33	33	38	105	118
		14,617	13,510	12,988	13,625	13,493
Current Assets						
Stocks	12	11,470	10,477	10,218	9,634	9,479
Debtors	13	14,384	14,586	13,678	13,472	12,487
Cash at bank and in hand		811	214	162	200	490
		26,665	25,277	24,058	23,306	22,456
Creditors: amounts falling due within one year	14(a)	17,972	16,161	14,643	13,912	12,748
Net Current Assets		8,693	9,116	9,415	9,394	9,708
Total Assets less Current Liabilities		23,310	22,626	22,401	23,019	23,201
Creditors: amounts falling due after more than one year	14(b)	266	335	813	1,250	2,000
		23,044	22,291	21,588	21,769	21,201
Provision for Liabilities and Charges						
Deferred taxation	15	244	285	453	1,007	738
Net Assets		22,800	22,006	21,135	20,762	20,463
Capital and Reserves						
Called up share capital	18	3,584	3,584	2,662	2,662	3,662
Share premium account	19	417	503	503	503	503
Profit and loss account	19	18,581	17,317	11,404	10,859	10,576
Shareholders' Funds		22,582	21,404	14,569	14,024	13,741
Minority interests in subsidiary companies	11(b)	218	602	6,566	6,738	6,722
		22,800	22,006	21,135	20,762	20,463

4. Notes to the 1984 accounts
The notes to the consolidated accounts of the Blagden Group for the financial year ended 30th December, 1984 are set out below:—

1. *(a) Analysis of Group Turnover and Profit by Activity*

	Turnover 1984 £000	Turnover 1983 £000	Profit before tax 1984 £000	Profit before tax 1983 £000
Manufactured and reconditioned drums and casks:				
U.K. plants	26,739	25,347	1,874	1,787
Overseas plant	4,934	4,288	419	399
	31,673	29,535	2,293	2,186
Plastic mouldings	13,147	13,070	27	340
Plating and transformers	2,531	2,160	(215)	(357)
Chemicals	21,529	19,312	902	523
Industrial protective equipment	3,531	3,118	500	347
Operating profit	—	—	3,507	3,039
Interest and share of related company's results	—	—	(539)	(434)
	72,401	67,195	2,968	2,605

(b) Destination analysis of turnover

	1984 £000	1983 £000
United Kingdom	64,400	59,274
Western Europe	6,430	6,730
Other	1,571	1,191
	72,401	67,195

2. Operating profit

	1984 £000	1983 £000
(a) The group operating profit is arrived at after taking into account:—		
Emoluments of holding company directors (note 2(b))	272	347
Depreciation of tangible fixed assets	2,257	1,857
Hire of plant and equipment	735	578
Profit on disposal of tangible fixed assets	(156)	(12)
Auditors' remuneration	152	137
(b) Directors' emoluments:—		
Fees	5	3
Other remuneration	260	277
Pensions to former directors	7	4
Compensation for loss of office	—	63
	272	347

The emoluments of the chairman, excluding pension contributions, amounted to £51,569 (1983—£41,516).
The emoluments of the other directors, excluding pension contributions were as follows:—

	1984 Number	1983 Number
Up to £5000	3	2
£5,001 to £10,000	1	—
£10,001 to £15,000	—	1
£20,001 to £25,000	—	1
£25,001 to £30,000	1	4
£30,001 to £35,000	3	—
£35,001 to £40,000	1	1

In addition to the above emoluments, consultancy fees of £8,930 (1983—£6,842) were paid to a limited company in which a non-executive director has a majority interest.

3. Employees

	1984 Number	1983 Number
(a) Average number of employees by activity		
Drums and casks	909	921
Plastic mouldings	597	592
Plating and transformers	142	155
Chemicals	105	101
Industrial protective equipment	126	122
Holding company	27	25
	1,906	1,907

	£000	£000
(b) Employee costs, including directors' emoluments		
Wages and salaries	14,108	13,598
Social security costs	1,252	1,228
Pension costs	701	814
	16,061	15,630

4. Net Interest Payable

	1984 £000	1983 £000
Interest payable on bank loans and overdrafts repayable within five years:		
by instalments	76	128
not by instalments	475	309
	551	437
Interest receivable	12	6
	539	431

5. Tax on profit on ordinary activities

	1984 £000	1983 £000
Corporation tax at 46.25% (1983—52%)		
Current	690	650
Deferred	—	(114)
	690	536
Overseas tax	164	149
Charge for the period	854	685
Adjustments of prior periods	(33)	(145)
	821	540

The charge for the period is stated after stock relief of £52,000 (1983—£283,000) and an excess of capital allowances over depreciation amounting to £406,000 (1983—£280,000). The charge for 1983 was also reduced by £214,000 in respect of deferred taxation provided in prior periods and which in the opinion of the directors was no longer required.

In the event of the overseas subsidiary company distributing retained profits, additional liability to U.K. taxation, less relief for overseas tax, will arise.

6. Extraordinary item

	1984 £000	1983 £000
Plant closure and redundancy payments after taxation	—	(57)

7. Dividends

	1984 £000	1983 £000
Dividends for the period to members of the holding company:		
Interim—3.5p per share (1983—3.3p per share)	502	351
Second interim—3.7p per share (1983—3.5p per share)	530	373
	1,032	724

8. Retained Profit

	1984 £000	1983 £000
The retained profit for the period has been dealt with in the accounts of:		
Holding company	194	807
Subsidiaries	874	602
Related company	—	(3)
	1,068	1,206

9. Earnings per share
Earnings per share is calculated by dividing the earnings for the period after taxation and before extraordinary items of £2,100,000 (1983—£1,987,000) by the number of ordinary shares in issue during the period, attributable to those earnings, of 14,336,304 (1983—14,336,304).

10. Tangible fixed assets

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 2nd January, 1984	6,319	22,000	28,319
Expenditure	189	3,462	3,651
Disposals	(50)	(714)	(764)
At 30th December, 1984	6,458	24,748	31,206
Depreciation			
At 2nd January, 1984	1,472	13,370	14,842
Charges to profit and loss account	166	2,121	2,287
Disposals	(13)	(494)	(507)
At 30th December, 1984	1,625	14,997	16,622
Net Amounts			
At 30th December, 1984	4,833	9,751	14,584
At 2nd January, 1984	4,847	8,630	13,477

	Cost	Depreciation	Net
Land and buildings comprise			
Freeholds	5,748	1,449	4,299
Long leases	636	109	527
Short leases	74	67	7
	6,458	1,625	4,833

	1984 £000	1983 £000
Capital commitments		
Capital expenditure authorised by the directors and not provided for in the accounts amounts to	708	1,873
of which contracts have been placed for	553	869

11. Fixed asset investments

	£000
(a) Related Company	
At 2nd January, 1984	
Cost	2
Share of post-acquisition reserves	31
At 30th December, 1984	33

The related company is not listed and, according to the information available to them, the directors place a value on the investment therein approximately equal to the amount shown in the consolidated balance sheet.

(b) Subsidiaries
During the period the company acquired the minority interest in Rheem Blagden Limited for shares in the company. As a result these accounts have been prepared, using merger accounting principles, as if that company had been a wholly owned member of the group for the period. Accordingly comparative figures have been restated where appropriate. (See notes 18 and 19.)
In addition the group acquired for a cash consideration of £312,435, the minority interest in H. Taylor (Drums) Limited.
No subsidiary is listed. The principal subsidiaries and the proportions of their called up share capital held by the group are set out in paragraph 6 of this Appendix.

12. Stocks

	1984 £000	1983 £000
Raw materials and consumables	4,791	4,953
Work in progress	2,245	1,778
Finished goods, including chemicals bought for resale	4,434	3,746
	11,470	10,477

13. Debtors

	1984 £000	1983 £000
Amounts falling due within one year:		
Trade debtors	13,686	13,979
Prepayments and accrued income	523	448
Other debtors	175	159
	14,384	14,586

14. Creditors

	1984 £000	1983 £000
(a) Amounts falling due within one year		
Bank loan and overdrafts	5,881	4,183
Trade creditors	8,788	8,808
Corporation tax	534	457
Other taxes and social security	594	509
Dividends due to shareholders	530	323
Dividends due to minority shareholders	—	188
Accruals	663	737
Other creditors	1,262	1,247
	17,972	16,161
(b) Amounts falling due after more than one year		
Bank loan	75	45
Corporation tax	191	290
Repayable within five years	266	335

The bank loan is repayable in instalments by 1987 and the corporation tax is due for payment in 1986.

15. Deferred Taxation

	1984 £000	1983 £000
Amounts provided for Timing Differences due to	1,014	1,014
Fixed assets	67	57
Capital gains	(708)	(657)
Advance corporation tax recoverable	(129)	(129)
Tax relief on losses available for carry forward		
	244	285
Full potential amount for all Timing Differences due to	4,889	5,079
Fixed assets	317	317
Capital gains	(708)	(667)
Advance corporation tax recoverable	(125)	(129)
Tax relief on losses available for carry forward		
	4,369	4,600

	£000
Movements during the period	
At 2nd January, 1984	285
Utilised during the period	(41)
At 30th December, 1984	244

16. Contingent Liabilities

	1984 £000	1983 £000
Holding Company		
Guarantees given for bank overdraft facilities and letters of credit in respect of two subsidiaries	2,000	1,590
Counter indemnities given to H. M. Customs and Excise in respect of five subsidiaries	593	—

17. Pension commitments
The group has a number of pension schemes for its employees. The most recent valuations of the funds by independent actuaries indicated that there were sufficient assets in each fund to secure the benefits of existing pensioners and to provide paid-up pensions to present employees on the basis of present salaries and credited periods of service.

18. Share Capital of the Holding Company
On 12th April, 1984 the company increased the authorised share capital to £4,750,000 and also issued, credited as fully paid, 2,556,000 Ordinary Shares of 25p each and 1,131,000 'A' Ordinary Shares of 25p each as consideration for the minority interest in Rheem Blagden Limited.

	Ordinary Shares of 25p each £000	'A' Ordinary (non-voting) Shares of 25p each £000	Total £000
Authorised			
At 2nd January, 1984	3,500	—	3,500
Increase in authorised share capital	967	283	1,250
At 30th December, 1984	4,467	283	4,750
Allotted, called up and fully paid			
At 2nd January, 1984	2,662	—	2,662
Restatement of prior period (note 11(b))	639	283	922
As restated at 2nd January, 1984 and at 30th December, 1984	3,301	283	3,584

19. Reserves

	Profit and loss account £000	Share premium account £000
At 2nd January, 1984	12,046	503
Restatement of prior period (note 11(b))	5,271	—
As restated	17,317	503
Retained profit	1,068	—
Surplus arising on acquisition of minority interest in H. Taylor (Drums) Limited	118	—
Costs of issuing share capital	—	(86)
Foreign exchange gains	78	—
At 30th December, 1984	18,581	417

5. Statements of source and application of funds
The consolidated statements of source and application of funds of the former Blagden Group based on the published audited accounts for the three financial years to 30th December, 1984, are set out below:—

	1984 £000	1983 £000	1982 £000
Source of Funds			
Profit before tax and extraordinary items, less minority interests	2,921	2,527	1,596
Adjustments for items not involving the movement of funds:			
Minority interests in the retained profit of the period	47	51	(30)
Depreciation	2,287	1,857	1,814
Profit on disposal of tangible fixed assets	(156)	(12)	(5)
Losses (profits) of related companies	—	3	(7)
Total generated from trading operations	5,099	4,426	3,368
Funds from other sources			
Disposal of tangible fixed assets	413	220	262
Disposal of related company	—	—	32
Other non-cash items:			
Adjustments arising on deconsolidation of subsidiary			
Tangible fixed assets	—	—	377
Other	—	—	(183)
Foreign exchange profit (loss)	78	(45)	(15)
	5,590	4,601	3,841
Application of Funds			
Purchase of fixed assets	3,651	2,592	1,848
Loan repayments	750	500	509
Tax paid	864	688	395
Dividends paid to company shareholders	825	670	639
Dividends paid to minority shareholders	168	174	—
Plant closure and redundancy payments	—	57	48
Costs of issuing share capital	86	—	—
Cash acquisition of minority interests	313	—	—
	6,737	4,681	3,439
(Decrease) increase in Working Capital	(1,147)	(80)	402
Comprising:			
Increase in stocks	993	259	594
(Decrease) increase in debtors	(202)	907	236
Increase in creditors excluding borrowings, taxation and proposed dividends	(257)	(845)	(163)
	534	321	667
Movement in liquid funds:			
Increase (decrease) in bank balances	597	52	(38)
Increase in borrowings	(2,278)	(453)	(217)
	(1,147)	(80)	402

6. Principal subsidiaries
The following is a list of the principal subsidiaries of the Blagden Group, their registered offices and issued share capital.

	Registered Offices (see Key below)	Fully paid up Issued Share capital
Containers		
ENGLAND		
Rheem Blagden Ltd	A	£3,690,476
Rheem Blagden Manufacturing Ltd	A	£210,000
Rheemco Ltd	H	£500,000
Victor Blagden (Manchester) Ltd	C	£1,100
London Containers & Nobles Ltd	B	£1,100
Victor Blagden (Barking) Ltd	A	£1,100
Geo. H. Ward & Sons Ltd	G	£32,000
H. Taylor (Drums) Ltd	D	£125,000
SCOTLAND		
Clark Hunter Ltd	F	£15,000
Neil Dryburgh & Sons Ltd	L	£27,800
BELGIUM		
N.V. Etabl. J. Verstraete S.A. (80% at 30th December, 1984)	J	BF 12,000,000
Plastics Mouldings		
ENGLAND		
R. B. Blowmoulders Ltd	B	£25,000
Willamot Industrial Mouldings Ltd	B	£1,100
W. W. Ball & Sons Ltd	K	£2,777,817
Ball Plastics Ltd	K	£17,000
Henry J. Peters (Billericay) Ltd	K	£17,000
B.E.F. Products (Essex) Ltd	K	£1,000
Chemicals		
ENGLAND		
Victor Blagden Chemicals Ltd	A	£51,000
Blagden Campbell Chemicals Ltd	A	£1,000
B&N Chemicals Ltd	A	£100,000
Protective Equipment		
ENGLAND		
Martindale Protection Ltd	E	£82,780
Martindale Electric Co. Ltd	E	£3,000
Other Activities		
ENGLAND		
Drake Transformers Ltd (Electrical Engineering)	K	£35,000
Toolchrome Ltd (Electroplating)	K	£38,000

All subsidiaries are owned 100 per cent. directly or indirectly by Blagden except where indicated.

Key:
A 16–18 Hatton Garden, London EC1N 8FJ
B Bess Works, Butchers Road, Canning Town, London E16
C Westinghouse Road, Trafford Park, Manchester 17
D Avonmouth Way, Avonmouth, Bristol BS11 9HD
E Neasden Lane, London NW10 1RN
F St. James Cooperage, Greenhill Road, Paisley PA3 1RE
G Wilson Road, Huyton Industrial Estate, Huyton, Nr. Liverpool, Merseyside
H St. Vincent's Works, Silverthorne Lane, Bristol BS2 0QF
J Schaapbruggestraat 37, 8610, Roeselare-Rumbeke, Belgium
K Burstead Works, Kennel Lane, Billericay, Essex CM11 2SS
L The Cooperage, Easter Road, Leith, Edinburgh EH6 8JS

Appendix III

THE EUROPEAN BUSINESSES

PART 1
DETAILS OF THE INTERESTS ACQUIRED

Introduction
The European Businesses consist of the following:
(i) 99.21 per cent. of the issued share capital of TMT (incorporated in Belgium) which in turn owns:
(a) 100 per cent. of the issued share capital of Plametha (incorporated in the Netherlands);
(b) 20 per cent. of the issued share capital of Verstraete (incorporated in Belgium) the remaining 80 per cent. of which was already owned by Rheem Blagden Limited, a wholly-owned subsidiary of Blagden, and
(c) 100 per cent. of the issued share capital of DSP* (incorporated in West Germany).
(ii) 100 per cent. of the issued share capital of Tolenes (incorporated in France);
(iii) 100 per cent. of the issued share capital of Rahm GmbH* (incorporated in West Germany);
(iv) 60 per cent. of the issued share capital of Fernsa (incorporated in Spain) which in turn owns 78.28 per cent. of the issued share capital of Fembesa (also incorporated in Spain);
(v) the remaining 21.72 per cent. of the issued share capital of Fembesa;
(vi) the lease of the European Headquarters from which management of the above interests is exercised, together with certain office and other equipment.
*Rahm GmbH and DSP are the partners in Schmalenbach, which is a general partnership under German law.

TMT—Belgium

(a) Product and sales

TMT manufactures 210 litre and intermediate steel drums, 10 to 30 litre pails in either steel or tin plate, plastic jerry-cans and pails and 57 litre and 60 litre plastic drums. It is also the base for the research and development unit of the European Businesses. Sales are to the petrochemical, chemical, paint and food sectors.

Until January 1985 TMT had a 51 per cent share of a joint venture with Société Continentale Parker France in Parker Benelux S.A. and had a licence to produce certain chemicals for Parker Benelux S.A. This investment has been sold, and TMT is now exclusively engaged in the manufacture of steel and plastic containers. In 1984 net external sales amounted to BF 1,135 million (£14.8 million) (1983 BF 1,022 million (£13.2 million)). TMT is estimated by management to be the market leader in Belgium for steel packaging products and a major plastic packaging manufacturer. Its market for steel packaging products is largely within Belgium. On the other hand, plastic packaging production is geared for expansion in both domestic and international markets and, in the near future, the plant will be able to produce and market injection moulded open head pails and three-piece welded plastic packages, to complement the metal packages product line and the blow moulded packages line.

TMT's packages are used to hold such substances as speciality chemicals, industrial paints and coatings, greases, lubricating oils and bulk food products for the domestic market and, through customers exports, for the world market.

(b) Manufacturing Facilities

TMT operates from one plant at Ghent. The plant is modern, having been considerably expanded since its opening in 1972 with three production lines for 210 litre drums, intermediate drums and pails, and modern blow moulding and injection moulding equipment.

(c) Management and Employees

There are 230 employees headed by the Managing Director, Mr T. Schreiber. Most of the factory workers and over half of the other non-management employees are members of registered trade unions, who are represented through a Workers Council which meets quarterly.

(d) General

The industrial packaging business of TMT has enjoyed a steady increase in business volume from 1980–1984. Management believes that, as the established market leader for steel packages in Belgium, TMT is well placed to build on its experience and research and development capacity particularly with regard to the growing importance of plastic containers.

Verstraete—Belgium

Blagden, through its wholly-owned subsidiary, Rheem Blagden Limited, already owns 60 per cent. of Verstraete which reconditions drums at its plant at Rumbeke.

Pierrette—Netherlands

(a) Products and Sales

Pierrette manufactures open and tight head 210 litre and intermediate sized steel drums, steel pails and tin-plate cans from its factory at Helmeren. Sales are to the chemical, food, mineral oil, vegetable oil and paint industries. In 1984 Pierrette's net sales were D.Fl. 64.5 million (£15.1 million) (1983 D.Fl. 52.3 million (£12.1 million)). In a very competitive environment Pierrette has increased its market share and expanded its customer base over recent years.

(b) Manufacturing Facilities

The Helmeren factory has four production lines for steel drums and pails: one for 210 litre drums, two for intermediate drums and one for pails. There are seven production lines for tin-plate cans: three for square cans and four for cylindrical cans. Production lines are efficient and in good working condition, all production lines for tin-plate cans have been renewed or upgraded in the last five years.

(c) Management and Employees

Pierrette has 260 permanent employees and, depending on production levels, hires further staff from a lending company. In 1984 an average of 45 people per day were employed from the lending company. The two most senior managers are Kees Hopmans (General Manager, Finance and Technical) and Paul Fassendaal (General Manager, Commercial) who joined Pierrette in 1958 and 1947 respectively.

About 27 per cent. of factory workers and non-management employees are members of a trade union, and management has stated that no strikes or significant labour problems have arisen in the last five years.

(d) General

Given its highly flexible manufacturing capacity, management believes Pierrette is in a good position to take advantage of technological innovation to protect or increase its overall market share in the Netherlands.

Toleries—France

(a) Products and Sales

Toleries manufactures 210 litre and intermediate steel drums, both lined and unlined.

210 litre drums form 90 per cent. of sales by unit. It supplies the chemical industry, which takes 50 per cent. of sales, and the oil industry, which takes a further 30 per cent. Net sales in 1984 amounted to FF 119.4 million (£10.3 million) (1983 FF 96.6 million (£8.4 million)).

(b) Manufacturing Facilities

Toleries has two factories at Landas and at le Vaudreuil, Rouen, and a head office near the main plant at Landas. The factory at le Vaudreuil in the North of France, was built in 1978–79, due to the strategic importance of potential customers in that area. Le Vaudreuil produces only 210 litre drums.

(c) Management and Employees

There are 121 employees headed by M. Patrick Ducroquet (Managing Director).

Toleries is affiliated to the Conventions Collectives de la Métallurgie and there is a workers' representative in each unit. The Landas head office has a Comité d'Entreprise.

(d) General

Toleries has steadily increased its unit sales with a consistently satisfactory gross margin. In 1984 both unit sales and turnover were increased and gross profit exceeded budget by over 30 per cent. As one of the four major suppliers of drums in France, Toleries is in a position to take advantage of the opportunity to increase market share. Toleries has a consistently good and improving profit record.

Schmalenbach—West Germany

(a) Products and Sales

Schmalenbach manufactures lined and unlined 210 litre and intermediate steel drums.

The drum market in Germany is very competitive being shared by about 18 German companies. The petrochemical and chemical industries take 80 per cent. of Schmalenbach's sales and the oil industry 13 per cent.

(b) Manufacturing Facilities

A fire at the Duisburg plant in July 1984 disrupted the normal manufacturing process but once the new machinery is in production Duisburg will again produce most of the 210 litre drums. The other factory at Gernsheim was built in the mid 1970s close to major customers, and predominantly produces intermediate drums.

Insurance policies covered most of the damage caused by the fire, as well as business interruption for twelve months. The Gernsheim plant is operating in two shifts in order to maximise production. Insurance monies amounting to DM10.6 million had been received to the end of January 1985. The claim for rebuilding has been met in full. There is a small element of underinsurance in respect of plant and machinery and stock.

(c) Management and Employees

Mr. F. Lessenich holds the position of General Manager; he heads up a staff and workforce of 116 employees. Foremen and administrative personnel and some 40 per cent. of employees are members of trade unions. There is also a statutory company Works Council.

(d) General

While the fire has distorted the results for 1984, management hopes for a significant improvement in 1985.

Femsa and Fembasa—Spain

(a) Products and Sales

Until this year, Femsa has been the sole supplier of tin-plate cans to the Spanish state-owned oil company. Other suppliers have recently been appointed and Femsa's sales to this customer are expected to be reduced substantially in 1985. This customer is, at present, the sole customer of Femsa and so, while management is using its best endeavours to minimise the effect of this change in circumstances, it is possible that there will be a significant adverse effect on Femsa's contribution to the profits of the European Businesses in 1985.

It should be noted, however, that the contribution of Femsa and its subsidiary Fembasa to the earnings of the European Businesses historically has been low. In 1984, they contributed less than 3 per cent. of [illegible]

[illegible]

The following is a list of the principal subsidiaries and associated companies of Blagden, their registered offices and other details, not included in the list in paragraph 5 of Appendix II.

Containers	Registered Office or Business Address		Issued Share Capital*
BELGIUM			
TMT (99.21%)	Industrieweg, 20-9030 Gent-Wondelgem, Belgium	BF	137,000,000
Verstraete (99.84%)	Schaapbruggestraat 37, 8810 Roeselare-Rumbeke, Belgium	BF	12,000,000
FRANCE			
Tolernes	30230 Laudun, France	FF	12,800,000
NETHERLANDS			
Plametha (99.21%)	Steenbergseweg, 43, 4661 RH Halsteren, Netherlands	DFl	1,050,000

9. Financial and trading position since 30th December, 1984

Save as disclosed herein, there has been no significant change in the financial or trading position of the new Blagden Group since 30th December, 1984, being the date of the latest published audited accounts of Blagden.

10. Audited accounts

The accounts of Blagden for each period of twelve months from 31st December, 1979 to 30th December, 1984, have been audited by Deloitte Haskins & Sells, Chartered Accountants.

The financial information contained herein regarding the Company and its subsidiaries does not constitute full accounts for the purposes of Section 11 of the Companies Act 1981. Full audited consolidated accounts of Blagden and its then subsidiaries have been delivered to the Registrar of ...

(i) the Memorandum and Articles of Association of Blagden;
(ii) the audited consolidated accounts of Blagden for the financial years ended 1st January, 1984 and 30th December, 1984;
(iii) the material contracts referred to in paragraph 4(f) above;
(iv) The Directors' service agreements or memoranda of the terms thereof referred to in paragraph 5(ii) above;
(v) the Accountants' Report and Statement of Adjustments;
(vi) the Valuers' Reports; and
(vii) the letters of consent referred to in paragraph 15 above.

Dated: 22nd March, 1985

Procedure for Application

GUIDANCE NOTES FOR APPLICANTS

As a result of this allocation procedure, applicants wishing to increase the likelihood of achieving full allocation are in a position to do so by making higher price applications.

At the same time, applicants who make unsuccessful higher price applications (i.e. at prices between 113p and the Striking Price) will be deemed to have applied at the minimum tender price, and will participate in the allocation of shares at that price.

PROCEDURE FOR APPLICATION

1. This Offer for Sale is made on the basis of English Law, by which all contracts resulting from applications hereunder shall be governed. No person receiving in any territory outside the United Kingdom a copy of this Offer for Sale and/or any Application Form(s) may treat the same as constituting an invitation to him nor should he in any event use any such Application Form unless in the relevant territory such an invitation could lawfully be made to him without compliance with any unfulfilled registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself as to full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consents or the compliance with other necessary formalities, and to pay any transfer or other taxes requiring to be paid in such territory in respect of shares acquired by him under this Offer for Sale.

2. Applications must be for a minimum of 100 shares and thereafter for the following multiples of shares:

Applications	*in multiples of*
for up to 1,000 shares	100 shares
for over 1,000 shares and up to 5,000 shares	500 shares
for over 5,000 shares and up to 10,000 shares	1,000 shares
for over 10,000 shares and up to 50,000 shares	5,000 shares
for over 50,000 shares	10,000 shares

3. Applications must be made on either or both of the accompanying printed Application Form(s) or, in the case of Shareholders in Blagden, on the Pink Preferential Application Forms mentioned below. Form A must be used for applications at the minimum tender price of 112p per share and Form B must be used for applications at any higher price per share, which must be a whole multiple of 1p. Photostat copies of Application Forms will not be accepted.

4. Preferential consideration will be given to applications received from Shareholders of Blagden with registered addresses in the U.K. who were on the register of members at the close of business on 20th March, 1985 up to a total of 4,500,000 shares if made on the special Pink Preferential Application Forms ("pink forms") made available to them. In the event of valid applications from such Shareholders exceeding that total, the basis of allocation among them will be decided by Rothschilds at its absolute discretion except that no application will be scaled down to less than 3 shares for every 10 held as shown on the register of members at close of business on 20th March, 1985, and all applications for less than 3 shares for every 10 held will be allocated in full. Shares sold pursuant to valid applications on pink forms will be sold at the minimum tender price. Rothschilds may, at its absolute discretion, treat applications on pink forms, to the extent unsuccessful, as applications made at the minimum tender price on Form A.

5. All applications must be lodged with National Westminster Bank PLC, New Issues Department, P.O. Box No. 79, 2 Princes Street, London EC2P 2BD not later than 10 a.m. on Thursday, 28th March, 1985. Each application must be accompanied by a separate cheque or banker's draft (drawn in sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man, of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of those Clearing Houses and which must bear the appropriate sorting code in the top right hand corner). Cheques or banker's drafts must be made payable to "National Westminster Bank PLC" and crossed "Not Negotiable—Blagden", and must represent payment in full at the price tendered.

6. N. M. Rothschild & Sons Limited reserves the right to instruct National Westminster Bank PLC to present all cheques and banker's drafts for payment on receipt and to retain Letters of Acceptance and surplus application moneys pending clearance of successful applicants' cheques and banker's drafts. Due completion and delivery of an Application Form accompanied by a cheque will constitute a warranty that the cheque will be honoured on first presentation; attention is drawn to the declaration in the Application Forms to that effect. Applications will be irrevocable until 4th April, 1985.

7. Subject as aforesaid and as mentioned below, valid applications will be accepted on the following bases:—

(a) If applications are received for 14,950,000 shares or more and applications at prices of 113p per share and above are for more than 5,950,000 shares, the following allocation procedure will apply:—
   (i) 5,950,000 shares (or the nearest lesser convenient number of shares) will be sold at the highest price ("the Striking Price") at which sufficient applications (including applications at higher prices) are received to cover 5,950,000 shares (or such nearest convenient number);
   (ii) subject to (v) below, all applications at prices above the Striking Price will be accepted in full at the Striking Price;
   (iii) should there then remain insufficient of the shares to be sold at the Striking Price as aforesaid to satisfy in full all applications at the Striking Price, a ballot will determine which applications at the Striking Price shall be accepted in full at the Striking Price and which shall be rejected;
   (iv) applications unsuccessful in the aforementioned ballot and applications, if any, at prices below the Striking Price but above the minimum tender price and applications to the extent scaled down under (v) below will all be deemed to have been applications at the minimum tender price; all such applications, together with all applications at the minimum tender price, which are wholly or partly accepted, will be accepted at the minimum tender price of 112p per share and in all cases may be subject to rejection or scaling down at the discretion of Rothschilds;
   (v) notwithstanding the foregoing, the right is reserved to scale down to not less than 150,000 shares any application for more than 150,000 shares that is made at or above the Striking Price. Such scaling down will be at the discretion of Rothschilds but will be governed by the objective of avoidance or reduction of the need to ballot applications at the Striking Price.

(b) If applications are received for 14,950,000 shares or more but applications at prices of 113p per share and above are for 5,950,000 shares or less:—
   (i) all applications at prices of 113p per share and above will be accepted in full at a Striking Price of 113p per share;
   (ii) all applications at the minimum tender price, which are wholly or partly accepted will be accepted at the minimum price of 112p per share but may be subject to rejection or scaling down at Rothschilds' discretion.

(c) If applications are received for 14,950,000 shares or less, all applications which are accepted (irrespective of application price) will be accepted in full at the minimum tender price of 112p per share.

(d) In addition, Rothschilds reserves the right to reject any application or scale down any application at or deemed to be at the minimum tender price in whole or in part and will have complete discretion in deciding the basis of allocation under 7(a)(iv), 7(a)(v), 7(b)(ii) and 7(c) and the conduct of any ballot under 7(a)(iii) above. Save as aforesaid and save as referred to in 7(a)(iii) and (v), all applications at or above a Striking Price of 113p or more will be accepted in full. Multiple or suspected multiple applications at or (as in (a)(iv) or (c) above) deemed to be at the minimum tender price are liable to be rejected as are multiple or suspected multiple applications at any one price above the minimum tender price.

(e) The Striking Price and the basis of allocation will be announced on or as soon as possible after Friday, 29th March, 1985.

8. The Offer for Sale and acceptance of applications will be conditional upon new Ordinary Shares of Blagden being admitted to the Official List of The Stock Exchange not later than 10th April, 1985. Dealings are expected to commence on 3rd April, 1985. Money paid in respect of applications will be returned by cheque through the post at the applicants' risk without interest if such condition is not satisfied and, in the meantime, will be retained by National Westminster Bank PLC in a separate account.

9. If any application is not accepted, or is accepted for fewer shares than the number applied for, or is made at a price higher than the price at which it is accepted, the application moneys or the balance thereof, as the case may be, will be returned by cheque through the post, in all cases without interest. It is expected that Letters of Acceptance will be posted to successful applicants on 2nd April, 1985. It should be noted that all cheques and documents sent by post in connection with the Offer for Sale will be sent at the risk of the persons entitled thereto.

10. Letters of Acceptance will be renounceable up to 3 p.m. on 17th May, 1985. The shares now being offered for sale will be registered free of stamp duty and registration fees in the names of the purchasers or persons in whose favour Letters of Acceptance have been renounced, provided that, in the case of renunciation, Letters of Acceptance duly completed in accordance with the instructions contained therein are lodged for registration on or before 3 p.m. on 17th May, 1985. Share certificates will be issued on 14th June, 1985.

AVAILABILITY OF THE OFFER FOR SALE

Copies of this Offer for Sale with Application Forms may be obtained from:—

1. N. M. Rothschild & Sons Limited, New Court, St. Swithin's Lane, London EC4P 4DU and from its branch in Manchester, 3 York Street, Manchester M2 2AW
2. Scrimgeour, Kemp-Gee & Co., 20 Copthall Avenue, London EC2R 7JS
3. Blagden Industries PLC, 16-18 Hatton Garden, London EC1N 8FJ
4. National Westminster Bank PLC, New Issues Department, P.O. Box 79, 2 Princes Street, London EC2P 2BD
5. National Westminster Bank PLC, Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol BS99 7NH

FORM A

APPLICATION FORM AT THE MINIMUM TENDER PRICE OF 112p PER ORDINARY SHARE

The Application List for the Ordinary Shares now offered for sale will open at 10.00 a.m. on Thursday, 28th March, 1985 and may be closed at any time thereafter.

This Application Form, when completed, must be lodged with or posted to National Westminster Bank PLC, New Issues Department, P.O. Box No. 79, 2 Princes Street, London EC2P 2BD together with a cheque/banker's draft, representing payment in full at 112p per share, so as to be received not later than 10.00 a.m. on Thursday, 28th March, 1985. **Photostat copies of Application Forms will not be accepted.**

A separate cheque or banker's draft must accompany each Application Form.

Cheques and banker's drafts, which must be drawn in sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of those Clearing Houses and must bear the appropriate sorting code number in the top right hand corner, must be made payable to "National Westminster Bank PLC" and crossed "Not Negotiable—Blagden". No application will be considered unless these conditions are fulfilled. All cheques and banker's drafts are liable to be presented for payment on receipt.

Applicants are strongly advised to use first class post and to allow two days for delivery.

BLAGDEN INDUSTRIES PLC

(Registered in England Number 178227)

Offer for Sale by N. M. Rothschild & Sons Limited of 14,950,000 Ordinary Shares of 25p each of which at least 9,000,000 Ordinary Shares of 25p each will be sold at the minimum tender price of 112p per share and up to 5,950,000 Ordinary Shares of 25p each are reserved for sale at the Striking Price (being not less than 113p per share), the price tendered being payable in full on application

(*) Applications must be for a minimum of 100 shares and thereafter for the following multiples of shares:—

Applications for:	In multiples of:
up to 1,000 shares	100 shares
for over 1,000 shares and up to 5,000 shares	500 shares
for over 5,000 shares and up to 10,000 shares	1,000 shares
for over 10,000 shares and up to 50,000 shares	5,000 shares
for over 50,000 shares	10,000 shares

An application for any other multiple of shares will be rejected.

To N. M. Rothschild & Sons Limited

FORM B

APPLICATION FORM AT A TENDER PRICE OF NOT LESS THAN 113p PER ORDINARY SHARE

The Application List for the Ordinary Shares now offered for sale will open at 10.00 a.m. on Thursday, 28th March, 1985 and may be closed at any time thereafter.

This Application Form, when completed, must be lodged with or posted to National Westminster Bank PLC, New Issues Department, P.O. Box No. 79, 2 Princes Street, London EC2P 2BD together with a cheque/banker's draft, representing payment in full at the price tendered, so as to be received not later than 10.00 a.m. on Thursday, 28th March, 1985. **Photostat copies of Application Forms will not be accepted.**

A separate cheque or banker's draft must accompany each Application Form.

Cheques and banker's drafts, which must be drawn in sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of those Clearing Houses and must bear the appropriate sorting code number in the top right hand corner, must be made payable to "National Westminster Bank PLC" and crossed "Not Negotiable—Blagden". No application will be considered unless these conditions are fulfilled. All cheques and banker's drafts are liable to be presented for payment on receipt.

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(1) Applications must be for a minimum of 100 shares and thereafter for the following multiples of shares:—

Applications for:	In multiples of:
up to 1,000 shares	100 shares
for over 1,000 shares and up to 5,000 shares	500 shares
for over 5,000 shares and up to 10,000 shares	1,000 shares
for over 10,000 shares and up to 50,000 shares	5,000 shares
for over 50,000 shares	10,000 shares

An application for any other multiple of shares will be rejected.

(2) Insert the amount enclosed (the number of shares applied for multiplied by the price per share at which application is made).

(3) The tender price (being 113p or a higher price being a whole multiple of 1p).

To N. M. Rothschild & Sons Limited

THE ARTS

Architecture/Colin Amery

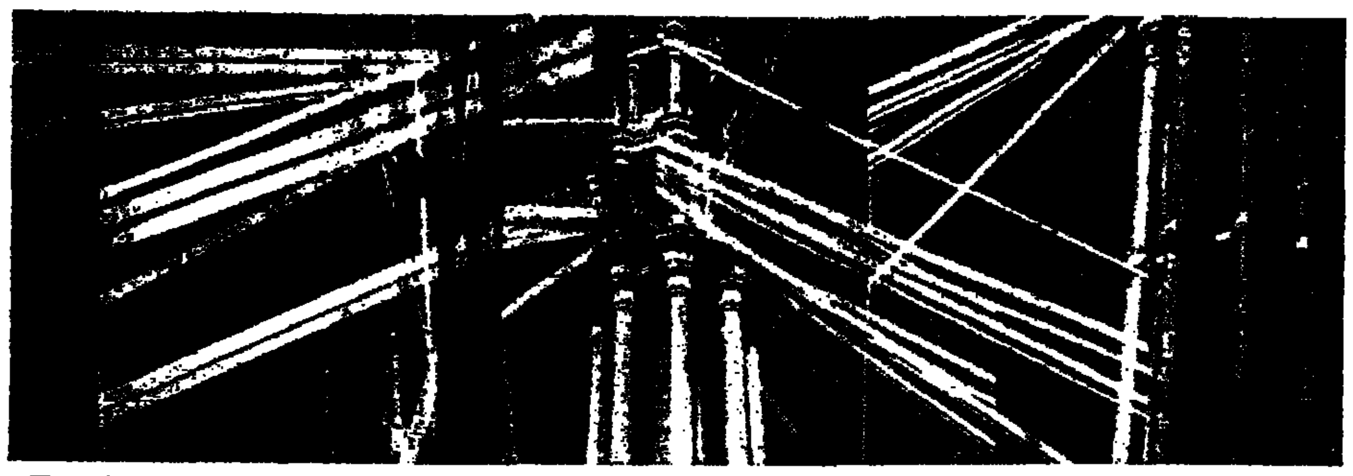
Farewell to Palumbo's folly in the City

The Secretary of State for the Environment, Mr Patrick Jenkin, is at this moment having a long, quiet read of his inspector's report on the public inquiry into the controversial Mansion House Square proposals at the heart of the City of London. When the developer, Mr Peter Palumbo, adopted the design of the late Mies van der Rohe for this delicate site, he clearly thought he was going to the top and offering the City of London a new building by one of the modern masters. All that was back in the 1960s; and the architectural and development scene is now so different that only a Secretary of State stuck in the ethos of the Sixties would dream of allowing the Palumbo/Mies scheme.

No one can say that the proposals have not had a fair hearing. The two-month-long planning inquiry was the longest of its type—apart from Sizewell—and the best attended in terms of expert counsel and witnesses, for a very long time. The inspector, Mr Stephen Marks, is known to be a fair and scrupulous judge. He certainly was a man of infinite patience, listening to the expensive witnesses brought from all over the world by Mr Palumbo to justify an out-of-date concept that had somehow become caught up in the time warp of the planning process.

I think that anyone who sat through the inquiry, whether they were for or against the proposal when they arrived, would have left at the end convinced that Mr Palumbo had got it wrong. A man with a vision, no doubt, but the wrong vision in the wrong place.

When the minister reads his inspector's view that the evidence against the scheme from the City and the GLC and a wide range of other objectors is more convincing than that of the Palumbo proponents, he will undoubtedly accept it; and recommend that the conservation area at the heart of the City be respected and that Mr Palumbo should restore, repair and rebuild where necessary on this expensive site. His decision is expected soon and will, no doubt, be in line with his other wise decisions on the National Gallery site and his clear wish to preserve the best of Britain's urban and architectural heritage. After all, it was Mr Jenkin who "found" £25m to preserve three great country houses—Kedleston, Weston and Nostell.



The vision of a young American artist transforms the more mundane world of modern architecture into alluring collages at a one-man show now at the Royal Institute of British Architects at 66 Portland Place. The work of Jenny Okun explores the structure of modern architecture in a series of superimposed images that can be enlarged to make huge murals.

There is no doubt that modern architecture often is conceived with the camera in mind; indeed, architects often see their designs as they might appear in the pages of the glossy magazines. The abstract nature of much mechanical structure looks well when it is turned into patterns by a skilled photographer—no one would deny that it frequently looks better than the real thing.

Skyscrapers of New York, cast-iron bridges of London and the gothic geometry of Westminster Abbey are some of the subjects that have been successfully transformed by Jenny Okun. Her work can be seen in London until March 29 and from the June 4-29 in the Bertha Udang Gallery in New York. Pictured above is her view of London's Albert Bridge over the Thames, the structure glamorised as an architectural collage.

Mr Jenkin also knows in his heart of hearts that the arguments now in the air about the new City of London plan being too conservationist are produced largely by esate agents and developers who have a vested interest in rampant demolition.

Mansion House Square is not the place for a dreary Mies stump—no amount of lobbying or sending the Prince of Wales copies of Mies's propaganda will convince anyone that Palumbo's folly should be built. The time is ripe for good new buildings to be erected in London and elsewhere. Surely the thing to do is to produce a map of the appalling eye sores and poorly constructed developments of the late 1950s and 1960s and seriously propose their demolition.

There is plenty of scope for the rebuilding of London in places where it will not hurt. With the disappearance of the GLC, the confusing muddle of the new "heritage" bodies and the tireless lobbying of rich developers like Mr Palumbo for the promotion of their own private dreams, the City of London is more vulnerable than ever. What a positive opportunity for a minister like Mr Jenkin to grasp the nettle of London's planning and architectural problems and to say that the time has come to promote only careful, quiet schemes of high quality that will fit in and respect the centuries of growth that are reflected in the fabric of the City. Civilised people everywhere rely on Mr Jenkin to say "no" to the Palumbo plan—not as a negative, stop-gap response but as the start of a campaign of caring for the architectural future of London. There is a great future for a minister who will advocate beauty.

It is gratifying to relate a satisfying outcome to an architectural competition—a form of commissioning new buildings that has yet to work satisfactorily in the UK. Leeds has just announced the results of its competition for a new theatre to be built as part of the £60m shopping and leisure complex on the site of the former Quarry Hill flats. The total scheme is being drawn up for the council by the Dutch developers, the MAB Group.

The competition followed an unusual format. In the first stage, an open invitation was issued to architects to submit their general approach to theatre design—129 of them obliged. From this submission, 12 practices were invited to compete in the final stage of the competition. This eliminated the need for all the entrants to submit detailed entries and allowed the selected 12 to negotiate directly with the client. They all felt that the proposed budget of £4.5m was inadequate for a good theatre and the clients agreed to increase the budget to a more realistic £5.8m. At the same time, the client cut down on the amount of detailed information needed from the architects. This kind of flexibility is essential if competitions are to be successful and produce realistic results.

The winning design is by the Appleton Partnership and the assessors describe it as a "substantial" building. It will be built in "traditional materials in a contemporary style." The hexagonal plan allows for a theatre with a semi-arena-shaped auditorium surrounded by large foyers and restaurants. There are two auditoria, with 750 and 350 seats, and they will be used by the regional repertory company. Work will begin in 1986.

From the competition drawings, the winner looks as though it will be a low-key building with a pitched roof profile that will fit in well with the St Peter's Square area of Leeds.

The runners-up were Derek Walker Associates, and Tim Foster with Burell Foley Associates.

Barbers of London and Kent

Max Loppert

Rossini's *Barbiere* was plying its trade right across the country last week. William Weaver reported from Glasgow on the radical Scottish Opera updating; down south, in quick succession, there opened two new productions by Kent Opera (at the Marlowe, Canterbury, on Thursday) and the Royal Opera (at Covent Garden on Friday).

Few people, surely, will quibble over the proliferation—what Verdi called "the most beautiful *opera buffa* in existence" remains one of the basic items of any well-balanced operatic repertory. But case-hardened critics (whose early infatuation with the work may have had to survive the trial-by-fire of too many mediocre revivals) and the average opera audience will necessarily have brought rather different criteria to bear on the new shows. Only one of the two seemed to me to reconcile all possible demands with any degree of success.

Despite a comparatively huge budget and a provision of international Rossinians, it was by no means a foregone conclusion that this would be the Royal Opera's (in recent seasons the temptation must be to bet the other way round). But the London production by Michael Hampe, conducted by Gabriele Ferro, is a success despite vocal weaknesses, because it achieves an expert balance between musical and theatrical requirements. This is more difficult than it seems; *The Barber* is, indeed, surprisingly difficult to do really well. Virtuosity is of the essence—virtuosity of voices and instruments, of comic nuance and timing. It is not to be confused with mere speed or vulgar clowning, yet a too-gentle, tasteful approach may miss the mark quite as much—this is not, after all, a comedy about nice people but about five delightful rogues (Rosina included) on the make.

The foundation of the Covent Garden performance is musical execution beautiful to hear which is also lively in the proper, pleasure-promoting ways. Mr Ferro (whose *Italiana* recording was recently praised here by Ronald Crichton) understands the three-way pull of the score.

The production, based on the staging by Hampe's Cologne company that visited Edinburgh no long ago, is full of "invenzione prelibata," excellent comic touches that mirror the zest of the music and very seldom go against it (the storm, with windows crashing open and pictures dropping down, is a bit much). Sets by Peter Davison "after the design concept of Ezio Frigerio" (whatever that means) suggest an 18th-century Seville with ravishing delicacy of style in both the external house facade (formidable yet welcoming, with peeling brown walls and heavy ironwork, and its airy wide interior (but aren't those open cupboards impossibly high up?). This is the sort of place where "real life" and comic plotting can coexist—and the deft blending of both is evidently a Hampe hallmark.

There are three first-rate portrayals, stellar but not scene-hogging, to keep the fizz going. Thomas Allen's Figaro combines charm and toughness in abundance, speed on his feet and in his mental calculations; if the "Largo" found him a little below the form previously shown on this stage, the voice soon came back into trim. Samuel Ramey presents us with a quite extraordinarily imaginative view of Basilio, skeletal, Rangoni-like in insidious menace—and, in addition to winning new laughs in the tiredest old places, Mr Ramey gives an unbeatable display of compact, finely forged Rossini bass singing.

Enzo Dara, the single native of the cast, wins Bartolo's laughs in more traditional ways, as only an Italian can—his outrage over a mispronounced surname is of hallowed lineage (and an unusual touch of coronary distress gains him no false, unwanted sympathy). To this gallery of Rossinian originals must be added Elizabeth Bainbridge's memorable crusty Berta (though in the absence of a true soprano the finales had to be doctored accordingly).

Rosina and Almavira, Royal Opera newcomers both, began much less well than they later carried on. In Franca Squarciapino's peacock-blue costume Alicia Nafé looked both oddly mature and like a marionette; the smile with which all good Rosinas immediately establish credentials was drawn tight; in "Una voce" the mezzo showed an attractive dusky quality in middle registers, less confidence and carrying power elsewhere (the lesson scene went much better). Deon van der Walt's height stands him in good stead, likewise the bright ring of a well-schooled *tenore di grazia*, but he still has a great deal to learn about style, in particular about tapping the expressive potential of florid vocal writing. The conductor had allowed a quite legitimate amount of ornamentation into the edition—and the surer the artist, the more vivid the result.

It's an irony, and a not especially pleasing one, that it should be Hampe's former collaborator Arnold Östman—conductor of the *Matrimonio segreto* that Cologne so successfully gave at Sadler's Wells—to provide root cause for a Kent Opera Barber of stygian dullness. Dr Östman, a noted Authenticist, draws from his small orchestra effective sounds (he uses a fortepiano in the recitatives) but entirely unauthentic, because ineffective, tempos and phrases. To the latter, in fact, it seemed that the conductor had given no consideration whatsoever, for the overture was painfully po-faced, and the singers were kept on a ridiculously tight rein, with no room to present their own vocal skills. Of the Kent cast, ill-chosen by and large (the Almaviva totally inexplicable), only one might actually have done so: Eirian James (Rosina), possibly the most accomplished florid singer in either London or Canterbury *Barber*. All the same, the opportunity to shine should at least have been offered all round.

Dullness in the orchestra and dullness on stage: it was a recipe for authentic Rossinian gloom. Jonathan Hales (producer) and Roger Butlin (designer) had moved the action to mid-Victorian England, seconded by Michael Irwin's crudely rhymed new translation. The jokes, such as they were, came from costume and design device, not from character and situation. Figaro a check-trousered sporting man, Rosina in spectacles, a massive organ and busts in alcoves dominating the music room, gas lamps and bobbies in the street outside: a colleague's name for it all was *The Barber of Wolverhampton*, and I don't think he meant it kindly. You could see everything coming a mile off, and very little was worth doing in the first place (the snatched extra interval after Act 1, scene 1 was a disgrace). To have to write this way of any Kent Opera performance is a bitter disappointment.

The Possessed/Almeida

Michael Coveney

I had doubts about the suitability of British actors inhabiting the marionettish Expressionism of Yuri Lyubimov's Dostoyevskyan nightmare in *Crime and Punishment*, but the new company dispels them entirely in *The Possessed*. This is a superb production and a brilliant adaptation by Lyubimov himself of an English version by Richard Crane based on Irina Kirilova's translation. The designer is Stefanos Lazaridis.

The cast appear in paper masks which become handkerchiefs on which they blow their noses before despatching them into the audience. The mask as a gesture of social expediency, the paper tissue an incriminating document, is a recurrent visual theme. The diagonal line dissolves and a chair and signpost are smuggled on, in a chain movement. We are in Tikhon's monastery for Stavrogin's confession.

The small provincial town that witnesses the tumultuously disastrous consequences of interference by a few crazed radicals, is a black box of springing vertical strips of corset elastic, each about a foot wide. Faces loom, pop and retreat from without, bodies are entangled within this elastic, which has a hammock-like variation to enliven one of the many sinister tangos, and which can be reconstructed to suggest the town's burning rooftops and the dead-of-night pond where Shatov's body is dumped, rather like a clerical corpse in Poland recently, by the stalwarts of the cause.

It is small wonder that Lyubimov, before he left his Taganka theatre, was refused permission to present this work with his own company. The novel, inchoate but absolutely riveting, is now a sardonically phophetic work of art suspended between the two great revolutions of 1789 and 1917. Michael Feast's athletically fevered, tongue-flicking Peter Verkhavensky looks like a wound-up Lenin. The miracle here is that Mr Feast's outstanding performance allies his native histrionic skill to the director's expressionist purpose.

This version both clarifies the novel, its great themes of loss of faith and redemption through love, and preserves its hectic, jagged quality. Opposite Mr Feast's driven agitator, pumped up with his own rhetoric and self-importance, is the fascinatingly impenetrable Stavrogin, the magnetic mystery man to whom Nigel Terry lends his own special brand of gleaming insolence.

Running at three and a half hours, the show seems to leave very little out and yet transforms Dostoyevsky to a wonderful plastic theatricality. To the accompany soundtrack of Alfred Schnittke all the novels' main dramatic events are here, with Gillian Barge vulnerably imperious as Mrs Stavrogin, Peter Kelly doubling the piano-playing Lyamshin with a Glaswegian-accented convict, Robert O'Mahoney extravagantly desperate as the suicidal Kirilov, Ian McNeice and Harriet Walter intriguingly dilapidated as the drunken Lebyadkina and his crippled, pathetic daughter.

Tom and Viv/Royal Court

Martin Hoyle

"Every family needs a wild crazed sort of black sheep," says Viv's silly-ass brother enthusiastically on hearing his sister has married an American poet. The first of the many ironies in Michael Hastings's play, now returned to the Royal Court, is that T.S. Eliot was all buttoned-up reticence and propriety: Viv it was that died—in the madhouse where she had been consigned for a decade.

The play has rightly won plaudits here and in New York. It is funny, pathetic and haunting. Mr Hastings is good on the upper-middle class, evincing a love-hate relationship for doomed graciousness and bland self-destructiveness — perfectly summed up in the brother, Maurice: a sweet-natured idiot, fatuous but without rancour; affable and breathtakingly stupid.

This was Vivienne's background; and the play makes a case for Eliot's being in love with it as much as with her. Edward Herrmann's pained, prim face is spasmodically distorted by eruptions of anguish as his wife's madness progresses. "Help us!" he shouts at David Haig's baffled Maurice; coming from this cold fish the cry is pitiable, wrenched out by pain become insupportable.

The play also has hilarious moments, perhaps too much so in the recounting of Viv's exploit with melted chocolate and a distinguished publisher's letter-box. For a second the author distances himself and us from the dramatic context and tells a funny anecdote at her expense.

Moreover, as Viv is shown as dotty from the very beginning of the play, surprise, even development, are precluded. Julie Covington is left with a series of variations and arabesques on eccentricity, from shrieking a Rhinemaiden's cry as Tom reads his poetry to stalking imagined rivals (Virginia Woolf, Ottoline Morrell) through London with a joke dagger—all of which she does beautifully, ending with the clouded, effortful clarity of "There have been good moments in the past. . ." "We've had our splendid times, haven't we?"

Max Stafford-Clark's production moves smoothly through 30 years though some of the cast speak their lines with curious mis-stresses. Margaret Tyzack (Vivienne's mother) is a marvellous exception.

Mahler Festival/Barbican Hall

Andrew Clements

Alongside the obvious thrust of the Barbican /LSO "Mahler Vienna and the 20th Century" Festival there is a thorough and most welcome tribute to Alban Berg in his centenary year. Thursday's instalment, sponsored by Nikon UK, with the London Symphony Orchestra again conducted by Claudio Abbado, devoted most of its weight to Berg. Mahler was represented only by his *Kindertotenlieder*, though that in the kind of account by Jessye Norman, marvellously shaded and savoured, which threatened to sweep thoughts of any other music aside.

Berg's Three Orchestral Pieces Op. 6 began the programme, the Three Fragments from *Wozzeck* ended it. Many passages in Berg Abbado realises most poetically—the beautifully moulded themes of the second orchestral piece, "Reigen," the closing bars of the final "Marsch"—but elsewhere one sometimes gets the impression that the substance of the work is missing, that a movement as structurally complex as "Marsch" really demands a firmer hand that is prepared to push through the more seductive passages.

In the Wozzeck Fragments also rhythmic exactness seemed to be placed second to textural warmth: a dreamily unfolded opening to the first piece, succeeded by martial music that was slightly undercharacterised, yet a spectacularly sensuous D minor interlude before the final scene, with each expressive strand in place.

Overall, however, the performance was a curious one — semistaged with the auditorium in darkness, the soloist (Dunja Vejzovic) placed at the back of the platform, a chorus of children and a hobby horse used for the final fragment — yet with Miss Vejzovic content to remain absolutely motionless, as if taking part in an oratorio. Some of her singing had a real dramatic edge, however; the *Sprechgesang* in the Bible-reading scene was taken quite unselfconsciously. But the text was often undecipherable, and that in the dark was a decided disadvantage.

Theatre bursaries

The Arts Council has awarded Theatre Writers Bursaries, worth £2,500 each, to playwrights Peter Flannery and David Halliwell.

Guildhall Composers

Paul Driver

The last of eight enterprising programmes that made up the Guildhall School's Contemporary Music Festival was given on Thursday in the commodious Music Hall that is part of the School's Barbican premises. It was performed by the Guildhall Chamber Orchestra, conducted by Lionel Friend, and was, like the other events of the festival, partly under the auspices of the Society for the Promotion of New Music.

We heard three premieres, and two works of inordinate familiarity, Webern's Op 21 Symphony and Milhaud's *La Création Du Monde*. The standard of execution in these latter was not quite as high as could have been expected: a raggedness pervaded the Webern, while the Milhaud did not succeed in making its jazz stylishness effortless.

One cannot, therefore, assume that the performances of the new works served them ideally, though their demands were in all cases considerable. None, I'm afraid, seemed touched by genius, and only one had anything like a sure sense of linguistic direction (Stephen King's *Nocturne*), though it was Philip Cashian's *Silbury* that came across as the most characterised.

It set out to evoke the appearance and numinousness of the celebrated man-made mounds. Its tightly drawn, almost glazed, surface had the pastoral quality produced by quietly, intensely sustained string sounds. But there were effective rumblings below—low woodwinds in unison; and a scattering of more novel noises that allowed the piece to suggest the influence of Birtwistle beyond that of Vaughan Williams.

Jenny Rodd's *September Boxes* was a long, divagatory and somewhat confused orchestral study, full of vaguely Stravinskyan effects, and a few interesting, less categorizable ones. It proclaimed a certain liveliness of talent; perhaps all Miss Rodd needs to do is paint her canvas a little less thickly and allow it more thoroughly to dry.

Stephen King's piece, a quite finely sustained meditation on a melancholy poem presumably of his own making, alone conveyed awareness of some sort of expressive tradition — perhaps that of the English twelve-tone school, such as it is. But any tradition is better than none.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

March 22–28

Music

ITALY

Rome: Teatro Olimpico: (Piazza Gentile da Fabriano): The violinists Salvatore Accardo and Margaret Batjer, Bruno Giuranna, viola, and Alain Meunier and Rocco Filippini, cellists. Schubert (Wed). (393304).

Rome: Oratorio del Gonfalone: (Vicolo Della Scimia 1/S (Via Giulia): The harpsichordist Rosa Klarer playing music by Baldassare Galuppi ('Il Buranello'). (Thur). (655952).

Rome: Auditorium of Via Della Conciliazione: Beethoven with the violinist Gerhard Hetzel, conducted by Eugen Jochum (Mon and Tue). (6541044).

LONDON

Philip Jones Brass Ensemble: Wigmore Hall (Mon). (9352141).

Imogen Cooper, piano. Schubert, Wigmore Hall (Wed).

Academy of St. Martin-in-the-Fields, directed by Iona Brown, violin. Bach. Queen Elizabeth Hall (Wed). (9283191).

Arditti String Quartet: Purcell Room (Wed).

BRUSSELS

Palais des Beaux Arts: Eliane Rodrigues, piano. Bach, Beethoven, Mozart, Brahms (Tue); Belgian National Orchestra conducted by John Currie with the Scottish Chorus and the Rodinella Children's Choir – Bach's St Matthew Passion (Thur). (5124550).

NETHERLANDS

Amsterdam, De Meervaart. A compilation of Fellini films with I Compani, conducted by Bo van de Graaf, performing Nino Rota's music (Thur). (107393).

Leiden, Stadsgehoorzaal. The Hague Philharmonic conducted by Roelof van Driesten, with Vicente Zarzo, horn, and Jan Goudswaard, guitar. Danzi, Schumann, Rodrigo, Liszt (Thur). (120097).

The Hague, Diligentia. Chamber music performed by members of the Hague Philharmonic. Partos, Stravinsky, Yun, Kodaly, Dvorak (Wed). (464308).

Nijmegen, De Vereeniging The St. Matthew Passion performed by the Nijmegen Bach Choir (Wed). The Amsterdam Philharmonic under Arpad Joo, with Mischa Dichter, piano. Dvorak, Brahms (Thur). (221100).

Maastricht, Stadsschouwburg. The Guarneri Trio (Tue). (13300).

PARIS

Academie Royale de Musique de Paris conducted by J.C. Vilhan: Vivaldi motets and concertos (Tue). St.-Thomas d'Aquin. (3532983).

Elisabeth Chojnacka, Harpsichord recital (Tue, Wed 8.30pm). Théâtre de la Ville. (2742277).

Orchestre National de France conducted by Roberto Abbado, Yo Yo Ma, cello: Brahms, Elgar, Dvorak (Wed). Théâtre des Champs Elysées. (7234777).

TOKYO

Vienna Volksoper Gala Concert, conductor: Rudolf Bibl; soprano: Mirjana Irosch and Melanie Halliday; mezzo-soprano: Claudia Elder; baritone: Karl Donch; Luis Giron-May. J. Strauss, Suppe, O. Strauss, Lehar, etc. Showa Womens College, Hitomi Memorial Hall. (Mon). (2827141; 5711689).

NEW YORK

Andras Schiff piano recital (Metropolitan Museum): The Bach series played last autumn at Wigmore Hall, London, comes to New York (Mon). (5703717).

Carnegie Hall: Cincinnati Symphony: Michael Gielen conducting, Phyllis Bryn-Jones soprano: Schönberg, Beethoven; Cincinnati Symphony: Michael Gielen conducting, Heinz Holliger oboe: Bach-Schönberg, Bach-Webern (Tue). Oratorio Society of New York: Lyndon Woodside conducting: All-Bach programme (Wed); Lucia Popp soprano recital: Lieder by Schubert, Dvorak, Wolpe, Mozart, Brahms (Thur). (2477459).

WASHINGTON

Philadelphia Orchestra (Concert Hall): Erich Leinsdorf conducting, John Brown piano: Ruggles, Stravinsky, Mozart, Wagner (Mon). Kennedy Center (2543776).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting, Isaac Stern violin: Wagner, Bartok, Mendelssohn (Thur). (4358122).

Saleroom/Antony Thorncroft

Monet view of Waterloo

This is the week of the spring sales of Impressionists and modern pictures in London. It is overshadowed by the Florence Gould auction in New York next month, when a view painted by Van Gogh from the window of his asylum room is confidently expected to set an auction record for an Impressionist painting of more than $9m; but there are important things on offer.

Most interest will be in the portrait by Egon Schiele of the textile manufacturer and art collector, Karl Grunwald. Prices for the rare works by Schiele that appear on the market—he died at the age of 28—have spiralled in recent years, reaching a peak of $3,190,000 for one of his nudes at Sotheby's in December.

This is an unusually sympatheic portrait for Schiele and Sotheby's expects bids to top £1m on Tuesday night. In the same session, a work by Picasso, "Femme au chapeau de velours"—which he painted in 1915, but kept in his possession until his death, when it was left to his daughter Marina—should approach £2m.

One of the many views of Waterloo Bridge that Monet painted from his room in the Savoy, and completed in France in 1903, carries a £650,000 top estimate; while a portrait by Modigliani should make £300,000. There are five works by Chagall on offer, with prices ranging up to £250,000.

Christie's includes a £100,000 Renoir in its sales on Tuesday.

Christie's sale of letters, manuscripts and books on Wednesday has one particular interesting lot—Evelyn Waugh's manuscript of his second novel, *Vile Bodies*. On Waugh's death in 1966 the University of Texas acquired his entire library, including the manuscripts of all his novels with the exception of *Vile Bodies*. This he gave in 1930 to his friends Bryan and Diana Guinness, noting: "I am afraid this will never be of the slightest value." It carries an upper estimate of £20,000.

The final typescript, with autograph corrections, of Dashiel Hammett's *The Glass Key* bears a modest £5,000 upper estimate; while deep in the past there are letters by Haydn, Nietzsche, de Sade and Luther (the latter with a £15,000-£20,000 estimate).

There are also major sales of photographs, with Christie's South Kensington offering "Life and landscape on the Norfolk Broads" by Emerson at £10,000-£15,000; while 25 prints of Arizona and Nevada in the early 1870s should fetch even more.

FINANCIAL TIMES

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Monday March 25 1985

New debate on arms strategy

IT HAS long been obvious that the European members of the Atlantic alliance harbour deep misgivings about the long-term ramifications of President Reagan's Strategic Defence Initiative. Their main fear is that the unrestrained pursuit of unproven technologies for anti-missile defence may upset the existing nuclear balance, with possibly dangerous consequences. Until recently, however, they have tended to restrain their public criticisms of the SDI, both in the interests of alliance solidarity and in order not to hand gratuitous weapons to the Soviet propaganda machine. Above all, perhaps, they have been reluctant to throw stones into the pond just at the moment when resumed arms control negotiations are gathering momentum in Geneva.

It may be that the phase of tactful restraint in intra-alliance dialogue on the subject of SDI is now over. Sir Geoffrey Howe, the British Foreign Secretary, has delivered a long speech cataloguing many of the anxieties provoked by the new American programme; and Mr Richard Perle, an assistant secretary at the U.S. Defence Department, has immediately replied with a fierce, not to say deliberately offensive attack on the Foreign Secretary's speech.

From this exchange Sir Geoffrey emerges with greater credit, in terms of rational argument as well as of civility. His critique of the SDI (otherwise known as Star Wars) is expressed as questions rather than as assertions. Since the research is only beginning to gather way, the questions cannot yet be conclusively answered; but their pertinence to western nuclear strategy is undeniable.

Will research lead to a plausible defence system? If it leads to partial defence of military targets, will that mean a return to the targeting of civilian populations? Will defences be survivable and cost-effective, or will they unleash a dual arms race in defensive as well as offensive systems? What will be the opportunity cost of hi-tech defensive systems, and what the impact on other elements of the West's defence spending? Will the very short reaction times required for space-based anti-missile systems be compatible with political control? Where will the SDI programme fit in with arms control?

In his heated rejoinder, Mr Perle simply ignored all these questions. Instead he harped (as he has done before) on the failure of détente in the early 1970s to restrain Soviet adventurism, and on the failure of arms control agreements to restrain the build-up in Soviet weaponry.

Much of Mr Perle's argumentation is disingenuous and debatable. It is certainly true that the Soviet Union has introduced many more new strategic systems in the past decade than the U.S. and that by some measures (though not all) it has established a numerical edge in nuclear systems. Yet given the vast redundancy in the strategic armouries of both super-powers, it is doubtful in the extreme whether the numerical discrepancies can be translated into any meaningful military advantage. The use of any nuclear weapon would incur the most horrific risks of retaliation; there is no way the Russians could disarm the U.S. and they know it.

Miscalculations

Moreover, the Soviet nuclear build-up during the 1970s was not attributable to the inherent failure of arms control as such, but to the short-sightedness and over-confidence of American negotiators. They might have been able to secure much more severe limits on the multiplication of warheads on strategic missiles: instead they over-estimated U.S. prowess in this technological refinement, and under-estimated Soviet ability to catch up in miniaturisation and targeting accuracy. It was this miscalculation which opened the door to the hypothetical threat now perceived by American hawks.

These miscalculations have lessons both for the arms control negotiations in Geneva, and for the Administration's confidence in its SDI programme. Naturally, the Administration justifies SDI partly as a vision of a safer future, and partly as an effort to catch up with Soviet research into defensive technologies. Either way, technology is given precedence over strategic analysis, and "catching up" becomes the rationalisation for what could become a new arms race.

On one point, however, Mr Perle has the better of the argument. Sir Geoffrey claims that the 1972 Anti-Ballistic Missile Treaty enshrined a joint recognition by the super-powers that stability depended on mutual vulnerability. This has certainly been western doctrine; but the scale of Soviet spending on anti-bomber defence, civil defence and now anti-missile defence shows that Moscow's commitment to this doctrine is at best temporary and conditional. The Russians may not have a usable advantage now, but we cannot rule out the possibility that they may be seeking a decisive advantage in the future.

Two questions now need to be addressed. First, can arms control ensure that neither side gains, or seeks, a decisive superiority? Second, does SDI demand a major alliance debate on the essentials of security strategy? This second question is the easier of the two: that debate may already have been started by the speech of Sir Geoffrey Howe.

WORLD OIL PRICES

Time to redefine 'market forces'

JUST OVER a year ago a group of veteran European experts in energy formed a small, informal group, with the aim of making occasional public statements about energy policy. It has come to be known as "the Frankel group," after the name of one of the group's founders—Dr Paul Frankel, the 81-year-old Austrian-born energy consultant.

Last year, the group's first statement, on the security of European oil supplies, was made to the EEC summit at Fontainebleau.

The Frankel group's second and more ambitious document is this 'manifesto about the need for a renewed bridge-building exercise between oil consuming countries and oil producers.

Signatories to the statement, each acting in a personal capacity, are: Dr H. Frankel, president of Petroleum Economics; Robert Belgrave, formerly a director of BP International; Prof. Umberto Colombo, President, Energia Nucleare e delle Energie Alternative; Vicomte Etienne Davignon, former vice-president of the European Commission; Prof. Andre Giraud, former Minister of Energy and Industry, France; Dr Toyoaki Ikuta, President, Institute of Energy Economics, Tokyo; Dr Ulf Lantzke, former executive director, International Energy Agency, Paris.

IT HAS become a cliché that the trade in crude oil and products is now dominated by the spot market and that spot prices are persistently weak and tend to pull down official government selling prices of crude, whether those governments be in Opec or in Europe.

It is widely accepted that this tendency is to be applauded and has brought about the 1982-84 reversal of the oil supply-demand relationship and that its repercussions in the realm of pricing is a complete success of the "free market economy."

Yet like most clichés, this one obscures rather than illuminates the reality, and closer examination reveals a different and more complicated picture. That prices depend on supply and demand is obvious. The way the latter two are formed; and the way they interact with prices is not. Nor is it obvious who or what determines the determinants.

The first thing that has to be said is that the much heralded fall in oil prices may turn out to have been a mirage, brought about by the excessive strength of the dollar. As the new Head of the International Energy Agency pointed out in a recent speech in London, prices in European currencies have risen—by 13 per cent—since 1982. A similar situation appears also in Japan.

That is what matters to European and Japanese oil refiners and consumers, and it matters also to crude oil exporters, who see the demand for their oil reduced in consequence and whose purchases are by no means confined to dollar sources.

Within the U.S. it is of course true that prices have fallen, yet even here there appears to have developed two views as to whether these lower prices are likely to last long in a split market. Investors would not continue the search for high-cost oil, as they are doing, both within the U.S. and elsewhere, in spite of the spectacular failure of the Mukluk well, if they did not believe in a long-term market that would remunerate their investment. We shall return to this point.

What is needed now is a reinterpretation of the term "market forces." Traditionally, the bulk of oil used to flow through the integrated channels of the major oil companies and by way of long-term contracts; as a fringe phenomenon there were some short-term movements, mainly in what was called the "independent" sector. At the time one used to say that these transactions related to "the collapsible extension to the main structure."

With the ending of upstream control in the Opec countries by the oil companies, and the more recent onset of a buyers' market, the advantage of "own" oil and of term contracts was eroded and, with eager supply exceeding shrinking demand, the wheel turned full circle and the "spot" price became the relevant item all across the board.

Like all "spot" prices of commodities, the market depends on the immediate supply-demand relation which may fluctuate widely and frequently. This type of market has an intrinsic relevance for the operator, yet it provides but little guidance to the investor, whether a finance house, or the World Bank, or an oil company.

Oil companies in particular still appear to put a premium on owning some part of their crude requirement; especially if this can be within the OECD area where some degree of "sanctity of contract" still obtains.

They are able to do so in part because of an implicit assumption that their respective home governments are prepared to provide them in one way or another with a protected market in the interests of national security of supply.

However, from a world supply point of view, the existences of de facto protected markets for oil produced within the OECD will not for long ensure continuity, because the OECD as a whole cannot do without access to Middle East reserves. Yet in present circumstances, neither foreign investors nor the Middle East governments themselves are prepared to put their money into the production and transport facilities that will be needed in say 10 years time. If this situation does not change, then the present glut will inevitably be turned into a shortage.

There thus emerges a need for two different types of supply contract, one which reflects the fast moving short-term market and the other which takes a comparatively durable supply-demand ratio into account.

Such differentiation of contracts has existed all along in the sphere of tanker transportation: there was a substantial difference in approach between time charter and spot transactions, the former being fixed for a sizeable period of time (although mostly subject to some form of escalation which related to general changes such as currency fluctuations and cost) and the latter which reflected — and created — short-term freight market developments.

Another relevant aspect of freight contracts was the introduction of the AFRA concept, which provided for periodical assessments of all charters extant on a certain date. These were consequently affected by short-term developments but reacted more slowly, due to the impact of more solid long-term elements.

On a different plane, when there was still an endeavour to retain some sort of system governing the relationship of the main world currencies to each other, there was developed the concept of what was then called a "crawling peg," which allowed changes, but was designed to contain them to provide some sort of continuity.

There is no such thing as market stability in an inexorably changing world, and it is in fact *continuity* which is called for — a system in which changes take place slowly without each one of them being of a magnitude which would shatter the existing set-up altogether.

Violent oscillations of the supply/demand ratio or still more so of price levels, have made nonsense of them existing contractual commitments. A real price collapse would do a lot of damage to the world energy system and a price surge would inevitably follow which in turn would again heavily damage *the world economy* as a whole.

To avoid these, there is a need for the re-establishment of a long-term relationship between producers and off-takers.

Secondly, confidence will have to be re-established among market participants. Difficult as this may be, given the experiences the world has gone through over the last two decades or so, it should be obvious for everybody by now that nobody has to gain from a situation in which oil is not regarded by many consumers to be a reliable fuel any more. Thirdly, it should be possible to devise a new type of contract between the main suppliers and offtakers which would cover a substantial part of the oil flow.

Such commitments, if entered in good faith, combined with an improved understanding of the consequences of a breach of contract, could provide a substantial element of security for the supplier as well as for the offtaker.

A prospect of continuity would also facilitate investment planning in respect of exploration and production of crude. However, the refining sector may well remain more volatile and less suitable for longer-term commitments given the degree of overcapacity prevailing in this sector.

It has to be recognised however that the type of purely commercial contract envisaged above may at any time be overturned by the sovereign power of one or more of the exporting countries, whose governments have in the past used unilateral application of the doctrine of "changed circumstances" either in order to raise the price when they believed they were in a seller's market or to pursue some political objective.

The position is still further confused where governments have acquired ownership of commercial company interests in addition to their regulatory and political role. Even in the U.S., the regulation of trade in the interests of public safety, the environment and competition, as well as the requirements of national security, represent a high degree of governmental "involvement" in the energy business. In the UK, the very existence of BNOC (now in the process of being disbanded) involved the government in pricing, as does Statoil in Norway.

Most contracting parties in the crude oil business live in different countries and political conditions vary.

Expectation of continuity under these circumstances is *difficult to imagine*, unless the governments concerned can provide this: by agreeing amongst themselves at least to provide — or to revive — a climate in which *pacta sunt servanda* is the rule, or—as a minimum—to provide by means of an "umbrella agreement" a deterrent against breaches of contract.

Of course, such agreements or understandings imply a limitation of sovereignty as do all international treaties and agreements. It may well be that this could prove to be a hopeless task in the case of oil, but it is the characteristic of leadership to keep on the lookout for the favourable conjunction of circumstances which can make the desirable become the feasible.

The present situation in which the OPEC countries are feeling the pinch of reduced demand, of its threat to prices, and the danger that oil might develop into a secondary role *in the overall fuel mix*, while the OECD countries see a need for continuity in order to sustain their own internal investment in (high cost) energy as well as provide overall stability for their economies, might provide such an opportunity.

To get things started, there is a need to identify an *interlocutor valable* on either side. Neither Opec nor IEA at this point in time is qualified to do much more than exchange information on supply and demand and their future prospects, though this might be valuable in itself.

With the U.S. strongly stressing the role of pure market forces in this particular field on the one side and Opec split by political divisions on the other, the bodies with both the capacity and the incentive to initiate serious discussions of the problem are the European Community or Japan on the one hand and the Gulf Co-operation Council on the other.

If these bodies could start a serious evaluation of the feasibility of some sort of non-exclusive umbrella agreement, to refrain from overturning commercial contracts commercially arrived at, that might give the *producing* and *importing companies*, whether state or private, the necessary confidence to enter once again into long-term contracts, and might open the way to wider understandings.

In short, the main obstacle now to a stable system is lack of confidence. The time is probably ripe for some initiative to introduce confidence-building measures into the relationship between crude oil suppliers and oil product consumers.

Within a single country with its own crude supplies, refiners are the only necessary intermediary. But internationally, governments or coherent groupings of governments should now play their part.

Businessmen as civil servants

THE British Government has been unnecessarily brusque in its rejection of each and every idea the Treasury and Civil Service Committee has produced for improving public confidence in the movement of people between business and the Civil Service.

The public and private sectors certainly have valuable skills and experience to offer each other, most of which remain untapped because of the absurdly rigid employment patterns which have tended to dictate that a career started in one sector remains within it for an entire working life. The overriding priority must be to break down this rigidity.

Nevertheless, there are two areas where the Government has been less than thoughtful in its response to the committee's proposals. One is the nature and operation of the Diamond Committee, which vets movement of senior officials into the private sector. The other concerns defence procurement.

...The committee's suggestion that two backbench MPs should be added to the Diamond Committee—perhaps Privy Counsellors or Select Committee chairmen—would have been a sensible reinforcement of confidence. It could have been taken even further with, for example, the inclusion of a High Court judge.

Defence procurement

The Government's rejection of such simple but effective improvements is unconvincing. More worrying is the failure to look at defence as a separate case. Defence procurement is an £8bn-a-year business within a largely closed world which does not always work to the taxpayers' advantage.

If any proof were needed that strict controls and procedures are necessary in handling job switches between the MoD and the defence industry, the row over the appointment of the new head of defence procurement provides it.

The Prime Minister has been embarrassed by the controversy within Parliament and the Civil Service over the transfer of Mr Peter Levene from the chairmanship of United Scientific Holdings (one of Britain's fastest-growing defence contractors) to the defence procurement post at a salary of £95,000 a year for five years. It may well be that Mr Levene, as poacher turned gamekeeper, will do the job better than a career civil servant, but it is a pity his appointment was handled so ineptly. It turns out that the appointment rules were breached and Mr Levene will not be shown papers on the £200m armoured personnel carrier contract because his former company was a bidder. This is just the sort of confidence-sapping episode which the Commons committee has been fearing and trying to prevent.

...In truth, however, both the committee and the Government are persistently missing the point. The most effective way to deter conflicts of interest or improper behaviour, while enabling the maximum amount of unobstructed movement, would be to expose the whole machinery of government contracts and negotiations to detailed and expert scrutiny. The Comptroller and Auditor General together with the Public Accounts Committee, given the will, could yet improve dramatically on the positions taken by both the Government and the Treasury and Civil Service Committee—and get the taxpayer a better deal on public sector contracts into the bargain.

Beyond the bar

Practitioners in the black art of administering insolvencies are holding their summit conference, Insol '85, in Monte Carlo this week.

For David Graham it will be one of his last public appearances as the leading British Queen's Counsel in that specialised field.

At 51, he is leaving the Bar to become an executive director of Cork Gully, the insolvency practice which is now part of accountants, Coopers and Lybrand.

As the annual earnings of lawyers of Graham's stature at the English Bar are normally well into six figures, I asked him whether he is taking a cut in his income in his new corporate role. While too modest to mention figures, he says he is not expecting to earn less than at the Bar. Coopers and Lybrand are digging deep into the corporate pocket to get him.

Graham is one of the founders of modern insolvency practice. As a young barrister from Leeds in the 1950s, he decided to specialise in what was then an almost unfilled field for lawyers.

One of his greatest assets has been his almost photographic memory, enabling him to recall almost instantly in court obscure details of balance-sheets studied months or even years before. "I can still do it," he says, "but it becomes harder as you get older."

Cork Gully has a staff of some 400 in Britain working on insolvencies. Recent assignments have included the Acrow and Servis receiverships. Graham will act as a father-figure to the team, passing on his special knowledge of the insolvency trade.

C and L see Graham's appointment as part of its strategy of moving towards being a multidisciplinary firm. The appointment of other professionals outside accountancy, such as an estate agent and a quantity surveyor to fill senior jobs, is also being considered, I am told.

"Must be the start of the FA's get tough policy—it's non-alcoholic lager"

Men and Matters

Exchange mafia

Richard Lawson's election as deputy chairman of the Stock Exchange, with effect from next June, is a triumph for the Throgmorton Street Mafia.

But before Sir Kenneth Berrill, newly-appointed top City policeman as chairman of the Securities and Investments Board, gets the wrong idea, I should hasten to add that the Stock Exchange Mafia is the self-proclaimed title of a select group of Council members.

Six in all, they were first elected in 1973, a vintage year for recruitment.

Time has thinned out the ranks slightly: Anthony Steel of De Zoete & Bevan died in 1983, and Crispin Gascoigne has retired to farm in Oxfordshire.

But including Lawson, joint senior partner of W Greenwell, the others will all have served in the deputy chairman's spot. Graham Ross Russell of Laurence Prust is in that position now, and George Nissen, of Pember & Boyle, and Peter Wills of Sheppards & Chase are past incumbents.

Lawson's election will be marked by a celebratory private dinner, and I understand that Gascoigne will be dragged up from his country estate for the occasion. Memories will no doubt flash back to the days a decade ago when the sextet would foregather to discuss reforms to propose to the then chairman, George Loveday—meetings which earned them the name of the Mafia.

Since then, however, they have become very much the establishment. A Stock Exchange insider tells me that none has challenged the supremacy of the current chairman, Sir Nicholas Goodison, and the current generation of rebels are mostly from small firms.

"All the current changes are necessary. We should have had them back in 1976-77," one mafioso tells me.

Bishops' move

How soon before the Conservative Party includes the disestablishment of the Church of England (and hence the removal of bishops from the House of Lords) in its election programme?

Party leaders have become increasingly irritated by the recent criticisms of the Government's economic and other policies from the bishops' bench. And, aware that their bogeyman, the Bishop of Durham, is due to make his maiden speech this evening in a Lords' debate on training, Conservative leaders lost no opportunity of having a go at, naturally unnamed, bishops when the Tory Central Council met in his diocese over the weekend.

Mrs Thatcher stole the headlines with her comparison between the voice of prelates and the Spring sound of the occasional *cuckoo*.

But there were as many laughs for local government minister, Kenneth Baker, who, noting the proliferation (if that is the word) of nuclear-free zones, wondered which local council would be the first to declare itself a bishop-free zone.

Still, some Tories are worried about overdoing the anti-clerical line, fearing that maybe the bishops have rather more support than Arthur Scargill.

Cold climate

Britain's new man in Buenos Aires, Colm Sharkey, is following his official brief to the letter, much to the apparent chagrin of some members of the local British community and their Argentine friends.

Since his arrival in November, Sharkey has kept a distinctly low profile, rarely venturing out on official calls and keeping his personal contacts to a minimum. He has ruled out any approach to Argentine Government officials, however informal.

All this contrasts sharply with the attitude of Sharkey's predecessor, David Joy, who made many friends. His farewell party, jointly celebrated with his daughter's wedding to an Argentine, was attended by more than 700 guests.

Sharkey's approach, it is understood, reflects the realities of British Government policy over the Falklands, which has now entered a particularly cold phase because of Argentina's dogged refusal to resume diplomatic or trade relations unless the tricky subject of sovereignty is discussed.

Observer

Franco-German relations

Why history could be in the making

By David Housego in Paris and Rupert Cornwell in Bonn

President Mitterrand (left) and Chancellor Kohl join hands at Verdun last year

THERE IS in the West German archives a photograph which officials will sometimes bring out to show to visitors prying into the current realities of Franco-German relations. It is a signed portrait of de Gaulle which the French leader presented to Chancellor Konrad Adenauer in 1963. Across it he wrote in his large spidery hand warm expressions of friendship, but added as well "my confidence in the union" of France and Germany.

If the photograph is brought out these days, it is because the legacy of de Gaulle and Adenauer as protagonists of Franco-German reconciliation and of closer European collaboration figures prominently in the political framework of both President Mitterrand and Chancellor Helmut Kohl.

The two have revived the security clauses of the Elysee Treaty that de Gaulle and Adenauer signed in 1963—so that bilateral consultation between France and West Germany over foreign affairs and military issues is closer than ever and more systematic than the contacts between any other two governments in Western Europe.

They symbolically joined hands in September of last year in a moving ceremony of remembrance of the First World War battle of Verdun—a gesture intended to bury past conflicts and cement future relations. They have both been talking recently of launching a "surprise initiative" in Europe (M Mitterrand's phrase) and of "the last great chance" for European union (Chancellor Kohl's).

Many European diplomats treat these declarations cynically as the lofty rhetoric of two leaders who see in the European cause an escape from their own domestic political difficulties. Both have so far certainly escaped the detailed questioning of their intentions that would face them in the British Parliament.

They meet in Paris again today for a meeting before the EEC Brussels summit which is due to take decisions on enlargement and to review the recommendations of the so-called Dooge committee set up by head of government on political integration. The meeting is routine in the sense that the two men meet often—ten times in 1984 and may be more this year. But it also reflects the common assumption in Bonn and Paris that the Franco-German relationship is the most important in the EEC and the key influence behind Community decisions. For Britain that is a painful conclusion to swallow.

What justifies the cynicism is that, over recent months, bilateral disputes between France and Germany have rarely been so numerous or so bitter. Over a range of issues—agricultural prices, steel subsidies, the development of the Ecu, car exhaust pollution (until last week's EEC agreement), Community finance, the proposed military reconnaissance satellite, the management of Airbus Industries—the two countries have been at odds.

French officials are exasperated at what they consider the Germans' *Europamüdigkeit* ("Europe-weariness") and at the Chancellor's weak handling of his ministers. From being the cash cow of Europe that financed the costly expenditure programmes of the Greeks or Italians, the Germans in French eyes are turning their backs on Europe to the point of blocking initiatives in the interests of budget discipline.

The French complain that the West Germans have been backtracking on decisions taken at the last EEC summit in Dublin. They accuse them of providing additional subsidies to German cereal farmers in defiance of EEC rules. They say that German ministers attending summit negotiations tenaciously defend national interests in a way that runs totally counter to Chancellor Kohl's European language.

Nothing demonstrated the friction quite so dramatically as a recent article which appeared in Le Monde—clearly inspired by the French Foreign Ministry — under the title "Is West Germany in the process of disengaging itself from the Community?" The French embassy in Bonn went to the extraordinary lengths of distributing a translation. The West Germans were indignant at being blamed by the French for obstructionism in the Community.

Some of these differences reflect the traditional lobbying in the EEC in defence of national interests. Others reflect more fundamental divergences of approach:

● The preoccupation of French economic policy, for instance, is with cutting the budget deficit further and bringing down inflation to provide more leeway for private sector investment. France has gone a long way to accepting these priorities since the March 1983 devaluation of the French franc. But German doubts over whether there is a real convergence of economic policy explain national hesitancy over the further development of the Ecu as a European currency.

● The French approach to industrial co-operation puts the main emphasis on joint projects such as Airbus, the Ariane space programme, the European fighter plane or the extension of the French high-speed trade network into West Germany. The West German emphasis, like Britain's, is on opening the internal market to provide a free flow of capital and goods.

But, nonetheless, the word at the Elysee as in Bonn is that the two leaders are serious in their European statements. At the Elysee it is underlined in red that progress on Europe "is the fundamental axis of the President's foreign policy and of his vision of the world."

Behind the pressure in Paris and Bonn for forcing the pace there are several common threads:

● The settlement of the difficult dispute over reform of the Common agricultural Policy and of the British Budget contribution have built up a momentum for further change. If this is not sustained, confidence in the Community will fall off—particularly in the six founding states. The French already fear that the younger generation of West Germans sees no value in the EEC or in contributing to its expansion.

● The way that the U.S. has managed both its economy and the launching of the Strategic Defence Initiative (SDI) has further demonstrated that in Washington Europe's interests are often being ignored. At the same time Europe needs to hold fast against Soviet pressures to divide it during the latest arms control negotiations. Europe's ability to define its own interests, policies and strategic concerns would be much assisted by greater political integration and a reinforcement of European institutions.

● A recognition, as a German diplomat puts it, that "only by combining Europe's forces can Europe maintain its economic and technological competitiveness."

Behind these general arguments, there are also strong political considerations that press for a hurrying forward of the timetable. President Mitterrand is likely to be faced with a hostile opposition majority in the National Assembly in March next year. In terms of European issues that would mean that the Assembly would either turn down the enlargement of the EEC to include Spain and Portugal—the neo-Gaullist RPR, for instance, is militantly against—or would substantially revise the terms agreed by the present government.

It would also mean that in the two year period between the legislative elections in March next year and the Presidential elections in 1988, M Mitterrand would be shackled in the running of his European policy. For a right-wing dominated National Assembly would have no wish to see a Socialist President cutting a figure on the European stage that would boost his domestic political standing.

Thus, from M Mitterrand's point of view, if there is to be substantial progress in the Community it has to be this year. The West Germans are conscious of this and of the risks of "a lame duck" French foreign policy in the 1986-1988 period. M Mitterrand would thus not only like a European success this year. But he would also like to cap it with a referendum which would demonstrate a far greater degree of support for his government than parliamentary or local elections could do.

The danger is that an adverse vote on a European issue would put back the very cause he is trying to further. But a referendum could not be more delayed beyond the autumn or winter.

With this tight political timetable in mind, Franco-German priorities are two-fold. The first is to ensure that enlargement can take place by January 1 as scheduled. The French believe that this issue will be wound up in Brussels. But they also think that although enlargement was vital on political ground, a Community of 12 will be even more unwieldy and difficult to run than a Community of 10.

Thus the second priority is to speed decision-making by rapid progress towards political integration—even if all the member states decline to go down this path. The French and German views over political integration lie closer to the maximalist recommendations of the Dooge report in terms of a substantial move to majority voting, of enhanced powers for a European Parliament acting in collaboration with the Council of Ministers, and of the setting up of a political secretariat attached to the Council.

If the EEC summit in Milan in June ended in failure or made insufficient progress, French officials say it is not ruled out that France and Germany would launch their own initiative. French officials say that the ground would have to be well prepared. The Germans add that Italy would need to be brought in and that any joint moves should be open to other members as well.

But while nobody knows what is in their leaders' minds, among the wild cards mentioned are a move towards joint FFr-D-mark currency or the revival of a French-German union to which other states could adhere.

Part of the French hesitation lies in the character of Chancellor Kohl. For if he and President Mitterrand enjoy good working relations, it is also clear that M Mitterrand has problems in pinning down the Chancellor on details.

Nonetheless, in the past the personal ties between leaders have had a decisive influence on both the course of Franco-German relations and of the EEC. It was de Gaulle and Adenauer who sprang the Elysee Treaty on a German public opinion then nervous of the repercussions for relations with the U.S. and with East Germany. Likewise, former President Giscard d'Esting and Chancellor Schmidt hatched in secret in 1979 the EMS which was then sprung on other EEC heads of government.

Recent signs are that some of the differences that have marred relations are now being narrowed. The Germans last week reached an agreement with their EEC partners over anti-pollution controls and Chancellor Kohl's most recent statements point to an increasing convergence of French and German views over SDI. But history is not made of such deals — and the making of history is what the two men seem to have in mind.

Lombard

Don't write off the U.S. boom

By Samuel Brittan

THE U.S. boom celebrates its second anniversary amid a flash forecast suggesting that it is fading. This is quite likely to be nonsense, as is the accompanying suggestion of a marked acceleration in inflation.

The flash forecast, together with the troubles of the Ohio Savings and Loan Associations, has given a convenient pretext for those who were buying the dollar for no better reason than that it was rising ("the trend is your friend") to get out from under.

It may be too soon to write off the strong dollar. It would only take some indications that the U.S. upsurge is still in good health after all (and therefore that the Fed can safely tighten), plus a warning or two from Paul Volcker about inflation, for U.S. interest rates to move upwards again and for fresh funds to be attracted into the U.S. currency.

The obsession with *short-term* savings has been a muddling feature in the whole debate about why far more jobs have been created in the U.S. than in Europe. In my book, The Role anl Limits of Government (Temple Smith, 1983), which went to press in the winter of 1982-83, when the published data still showed the U.S. in deep recession, and when fashionable opinion wrote off any recovery, I was still able to include a long-term chart (p. 211) showing that the number of U.S. jobs had increased by nearly 20 per cent over a decade, while it had stagnated in Europe.

The unemployment comparison was more complex, but pointed in a similar way. Up to the early 1970s, partly because of the differences in the nature of unemployment on the two sides of the Atlantic, it was normal for U.S. jobless rates to be several per cent higher than EEC ones in both boom and slump.

But by the early 1980s, the gap had been reversed. The U.S. experienced in 1980-82 little more than a normal cyclical upturn in unemployment, while the EEC was experiencing a secular rise and had overtaken the U.S.. Thus it was possible to pin-point the superiority of the more flexible and less unionised U.S. labour market, long before there was any U.S. boom to debate.

But obviously, the U.S. did take a quantum leap, in 1983-85 with real GNP growth rates averaging 6 to 7 per cent.

For Keynesians, "reflatonists" and big spenders tax cuts were important because they stimulated demand and boosted the Budget deficit. Public spending (over and above the military boost) would, they believe, have been even better because they would have leaked less into imports and savings.

A sober statement of the opposite case for the incentive as distinct from the deficit effects of U.S. tax cuts is made by Grover Norquist of the U.S. Chamber of Commer (Supply Side and Economic Growth, Adam Smith Institute, 2, Abbey Orchard Street, London SW1).

It does not, however, remove all doubts. The author emphasises the slashing of top U.S. marginal personal tax rates in 1981 from 70 to 50 per cent. But Sir Geoffrey Howe cut UK top rates from 83 to 60 per cent even earlier back in 1979 without unleashing an economic miracle. As for the quick capital write-offs, they are very familiar in Europe, and were not only dropped as a harmful distortion in the British Budget of 1984; they have also been condemned by the U.S. Treasury in its admirable tax reform proposals.

Still, Mr Norquist has good points to make. Mainstream economists of all shades thought that U.S. investment would be weak, because the deficit would stimulate high interest rates. Instead, investment grew faster than consumption, unusually for the early stages of a postwar recovery.

My own view is (a) that more rapid demand growth did help launch the U.S. boom, (b) that the massive Fed relaxation of 1982-83 was more important here than Budget deficits, (c) that the tax cuts reinforced the stimulus by suply-side effects in direct contradiction to the leakage theory, (d) that freer U.S. labour marekts made that demand stimulus much less inflationary than a corresponding impulse would have been in Europe (do not forget President Reagan's early dismissal of the striking air traffic controllers) but that (e) massiv net U.S. overseas borrowing exported some of the inflationary impact and enabled hte U.S. to enjoy an investment boom without any belt-tightening. This final element cannot last.

Letters to the Editor

The housing scene

From Mr F. Steiner

Sir,—Joan Gray's article (March 18) on the British housing market is incomplete. It is no doubt correct that the private sector is broadly in balance with demand, and that there is a worsening shortage in the public sector. The corollary left out is that the owner-occupied sector may be in equilibrium but that the rented sector is not. The continued shrinking of the private rented sector helps to aggravate unemployment by adding yet another factor of immobility. Yet the economic rigidity is not the worst consequence. The human misery of people who cannot afford to buy but are not entitled to council housing, even if they want it, is worse.

A new consequence is the increased homelessness among people who can no longer maintain the properties they are paying off, particularly if they have suffered foreclosure. A generation ago they could have traded down by renting something much smaller or cheaper, and with much more flexibility, perhaps renting two rooms for 10/6d a week, or 15/- for three. Now there is no such option and if the lesser evil of doubling up with parents is not available, there may be a breakup of the family as well as homelessness.

The blame for this state of affairs lies with both parties. The initial fault was undoubtedly that of the Labour Party, from Nye Bevan electioneering in 1945 on the platform of no increase in controlled rents, to Mr Gerald Kaufman glorying 20 years later in the boast that the disappearance of the private rented sector was both policy and fact. Yet the Conservatives since 1979 have not merely been unenterprising or lacked courage, one suspects that they too do not care for the private tenant, and if they cannot get rid of council tenants altogether they want to turn as many of them as possible into "property owners" for electoral reasons.

Both parties should know by now that this policy has been wrong for both economic and moral reasons and one only hopes that it is not too late to undo some of the damage and get some construction of both houses and flats for letting restarted after nearly 50 years.

I also dissent from the idea that in the interests of selling more houses people should be "encouraged to move." It is expensive to do; if it becomes a normal feature of life as already to some extent in America, it will add yet one more item to increasing the cost of living. Trading up in houses by moving to a different area may set up social strains (break in school and other friendships) which do not apply to trading up in hard goods. The social damage from copying an American-type, permanently mobile, society is too high a price for extra sales of executive homes.

F. M. Steiner.
c/o The Reform Club, Pall Mall, SW1.

Tax-effective investment

From Mr J. Hills

Sir,—My letter (March 9) in response to Clive Wolman's article on tax-effective investments appears to have stirred up something of a hornets' nest. In particular, Mr Piper wrote (March 12) that I was wrong in suggesting that investors will not be able to enjoy the 100 per cent initial allowance for the purchase of very small workshops after March 26, even if they were constructed by a developer before that date.

All I can say is that I understand from colleagues within the profession that the Inland Revenue technical division agrees with my interpretation, i.e. 100 per cent initial allowances continue to exist for purchases after March 26, provided construction of the very small workshop was complete before that date. For the technically minded, the key to this interpretation is in Finance Act 1980 section 75(5).

Jon Hills.
Pownall Kerr Forster, 78, Hatton Garden, EC1.

Investment in Bangladesh

From the Counsellor (Press), High Commission for the People's Republic of Bangladesh.

Sir,—We feel that the Reuter report from Dhaka headlined "Bangladesh restricts foreign investment" (March 15) has not presented the picture correctly.

When contacted, the director general of the Department of Industries, informed us that in his briefing, on the contrary, he reiterated the existing policy of the Government for overseas investors.

The Government, in fact, welcomes foreign participation in joint venture on mutually beneficial terms and conditions in: new enterprises, particularly those requiring specific technology available to the foreign investors, which will make an additional net contribution to the economy, including the training of Bangladesh personnel; undertakings in which more intensive use of natural resources is made; export-oriented industries; capital intensive technologies, the products of which will be either import substitution or export oriented; and existing public or private sector enterprises where infusion of foreign capital or technology will mean an increase in productivity and improvement in the product.

Muhammad Zamir.
28, Queen's Gate, SW7.

Smoking, tax and freedom

From the Director, Action on Smoking and Health

Sir,—In your piece "Over 66 per cent of smokers 'try to stop'" (March 19), you cover a survey by an organisation called the "Freedom Organisation for the Right to Enjoy Smoking Tobacco" without making it clear to readers exactly what this body is: it is sponsored by the manufacturers of cigarettes.

The tobacco industry has for more than 20 years tried to oppose measures designed to improve this country's appalling epidemic of smoking induced disease. If this "fredom" group were really interested in personal freedom, surely it would be concerned that two-thirds of the smokers in its survey suffered a very serious restriction of their freedom—they were unable to break free from an addiction to the most harmful consumer product the world has ever known.

Your report publicised the suggestion that "if people were forced to give up smoking and "became so edgy that they needed alcohol or tranquillisers as an alternative support they would probably be worse off than if they carried on smoking cigarettes'," apparently without checking with any medical or health expert familiar with this area. Your readers should be assured that there is no scientific justification for such propaganda; and that nobody in the health field wants to "force" anyone to stop smoking.

Your paper did not carry a pre-Budget release from my organisation. It described the urgent representations the Chancellor had been receiving from the medical profession to increase cigarette taxation; and it published the important new finding from a government survey, that a majority of adults said they would approve or at least not disapprove if the Chancellor again raised tobacco tax.

I fear that your paper is in danger of being seen to actively support those seeking to protect an industry promoting a substance which at present causes far more damage to health and life than heroin; and of discriminating against those in the medical and health professions, in government and voluntary organisations, who are desperately trying to cope with what the Royal College of Physicians calls the "hidden holocaust" of diseases caused by smoking.

David Simpson.
5-11, Mortimer Street, W1.

Profit sharing schemes

From the Director, Industrial Participation Association

Sir,—The improvement of the provisions for approved profit sharing schemes in Mr Lawson's Budget should encourage many more companies to introduce schemes. In a recent attitude survey of participants in 12 profit sharing companies, we found that the most disliked feature of the schemes was the long period during which the shares were held by trustees, and there was a potential income tax liability if they were sold. Now that this has been reduced from seven years to five, profit sharing schemes become much more attractive both to employees and to managements.

It is not that employees necessarily want to sell their shares as soon as they are free from tax: most respondents said they intended to retain them on a long term basis. But employee shareholders should as soon as possible be in the same position as all other shareholders in a company, with the shares registered in their own name, and without any additional tax penalty if they do decide to sell.

Profit sharing does improve employee attitudes and their sense of identity with the company, and as our survey showed, as a result of the scheme the great majority of participants take a greater interest in their firm's financial performance and profitability. When most managements are trying to generate a greater understanding of the business, it is clear that a profit sharing scheme helps.

D. Wallace Bell.
85, Tooley Street, SE1.

SE Council's proposals

From Mr V. Milrath

Sir,—I have been a member of the Stock Exchange since 1969.

I survived, like many colleagues, the crash of 1974.

I believe the London Market will not flourish in a dog-eat-dog environment.

I am a fighter, but not a kamikazi pilot.

There is no way in which I can support the Stock Exchange Council's suicidal proposals.

Victor Milrath.
17, Tokenhouse Yard, EC2.

FINANCIAL TIMES
Monday March 25 1985

Michael Morgan on Wall Street

Equities confront a spectre

A FURTHER substantial rise in equity trading, particularly in the over-the-counter markets, will force big changes on the Wall Street brokerage community.

As it measures up to this increase of activity, the industry itself sees the spectre of intense competition both from the existing brokerage firms and from the rapidly growing diversified financial services companies.

The crystal-ball view emerges in the results of a soul-searching exercise by industry executives and their customers. More than 600 of them took part in the quaintly entitled "Delphi" study into the prospects for the industry.

According to the study, average daily share volume on the New York Stock Exchange will increase by 48 per cent to 135m shares by 1988, from 91m last year. In the Nasdaq over-the-counter market, *trading volume is seen rising by an* even larger 70 per cent, from 60m last year to 102m shares in 1988.

The prospects for trading in newer products such as financial futures and options are also rosy, with sharp rises in volume envisaged.

Despite greater activity, however, the projections represent a slowing down from the exceptional growth seen between 1978 and 1983, cautions Mr Jeffrey Schaefer of the Securities Industry Association in New York. Mr Schaefer is the joint author of the report with Mr Marc Sternfeld of Arthur Andersen.

Looking beyond the confines of Wall Street, growth in trading of securities across national boundaries is expected to continue. Indeed, the report suggests, U.S. interest in foreign equities will outpace the increase of foreign demand for U.S. equities.

The growing internationalisation of portfolios is expected to lead foreign securities companies to accelerate their entry into the U.S. market through joint ventures with U.S. investment banks while U.S. firms are expected to expand their existing foreign offices.

As the pace hots up, the study says competitive forces will also grow. Competition, it argues, is the most potent force for change in coming years.

The study differentiates between the retail securities business – aimed at individual investors – and institutional business. On the retail side, non-securities firms, and particularly the diversified financial services companies, are expected to pose the greatest challenge. For institutional business, the competition will come from within the industry.

Industry concentration is also expected to increase further with the big Wall Street firms expanding at the expense of the smaller companies. The top 10 companies are expected to increase their share of available revenue at the expense of firms ranked below the top 25.

The growth in their revenues will, however, be derived from increasingly different sources. Commissions will become less important, while trading and income investment will provide a growing share.

In the fiercely competitive environment, marketing will become increasingly important – with all sectors of the industry homing in on the same customers – and firms say they will be more aggressive in bringing new products to the market place.

Customer preferences will be a vital factor for future change. However, the study identifies a potential difficulty in that area, with distinct differences becoming apparent between what customers say they want from a brokerage house, and what the industry thinks customers want.

While the industry accurately reflected the priorities of money managers, more creativity was required in meeting the needs of corporate customers.

The industry was, however, more attuned to retail customers and particularly those with incomes of $65,000 and more.

Despite a continuing squeeze on costs, less than 5 per cent of industry respondents saw their firms abandoning research departments. Although expensive, research is important to the large institutional investors and their equity business will remain the lynchpin of most leading firms.

Continued introduction of new technology will bring significant cost increases, partly offset by an expected decline in occupancy and clerical costs.

Regulatory changes, the focus of much attention in recent years as boundaries have been crossed between the different financial services companies, will be of less significance to the industry over the next three years. However, further deregulation of all sectors is expected.

FEDERAL MEDIATOR WINS TENTATIVE UNION AGREEMENT

Pan Am strike nears settlement

BY WILLIAM HALL IN NEW YORK

PAN AMERICAN Airways, the financially troubled U.S. airline, has reached a tentative agreement with its striking ground crew, opening the way to settlement of the longest strike in the airline's history.

Mr Robert Brown, the federal mediator who was brought in to help to solve the 24-day walkout which has grounded over half of Pan Am's fleet, announced at the weekend that a tentative agreement between the airline and the 5,800 striking members of the transport workers' union had been reached.

Details of the proposed settlement of the first big strike in two decades at Pan Am, will not be released until the deal has been ratified by the members of the union. It was unclear yesterday whether the 5,800 mechanics and baggage handlers who have forced the airline to cancel most domestic U.S. flights and severely limit international operations would call off their strike immediately.

One local union official said that the settlement did not protect some employees facing dismissal, or deal with the company's right to hire part-time workers.

The transport workers' strike has been the most serious of several labour disputes that the airline has faced recently as it struggles to cut costs and compete with the cut-price airlines which have been growing rapidly after the deregulation of the U.S. airline industry. Pan Am has lost $750m over the last four years and has been seeking major concessions from its workforce in its battle for survival.

The transport workers went on strike on February 28 after rejecting a proposal from the company that would have increased wages by 20 per cent over three years, plus an immediate $1,200 bonus and a $900 bonus for all other employees negotiating further work agreements.

The increase included a 14 per cent pay rise that the union had foregone in 1982 when the airline was believed to be on the verge of bankruptcy.

The workers had also rejected a management proposal to hire part-time employees and create a two-tier salary system to pay new employees as much as 50 per cent less than the existing workforce.

When the union went on strike, Pan Am's chief executive, Mr Edward Acker, said that the union had "woefully failed to recognise that Pan Am cannot compete in a low-cost, deregulated environment under the burden of archaic work rules and unrealistic compensation levels."

The strike initially grounded most of PanAm's flights as other union members refused to cross the picket lines. There have, however, been signs that the strike was losing support as first the pilots and then other union members began to cross the picket lines.

Before the strike Pan Am was carrying around 38,000 passengers a day on some 400 flights to cities in the U.S. and overseas. By last week, the airline was able to operate 36 per cent of its regular daily flights and was hoping to be flying more than 52 per cent of its schedule by today.

While the proposed three-year settlement will go a long way to securing the resumption of normal operations, the airline still faces the prospect of further labour disruptions in the near term. Pan Am's 6,000 flight attendants are threatening to strike on April 1 if they cannot agree a new contract with the airline.

Iran reprisals threat fails to deter Iraqi attacks on Kharg

BY RICHARD JOHNS IN LONDON

IRAQ RESUMED air strikes against Iranian oil traffic yesterday, *ignoring* a publicised decision by Tehran to cease shelling towns after a brief lull in attacks by the two sides against centres of civilian population.

There was no immediate response by Iran to the missile attacks on two vessels in the vicinity of Kharg Island and one on the heavily fortified terminal itself, although last night Iraq said Basra and other border towns had been shelled.

A statement issued by Iran's war information headquarters before the Gulf strikes said that Iran would retaliate "with full force" if Iraq attacked any Iranian towns – whether on the border or further inside Iran – or merchant ships in the Gulf, or caused problems to civilian airline traffic.

The vessels struck in the Iraqi raids were the 126,469-ton Volere owned by Eraclide SPA, part of the Naples-based Lauro shipping group, and the 51,904-ton Maltese-owned Eastern Star. They were the first confirmed strikes on Iranian oil traffic for a week.

Eraclide said in Naples that none of the crew of 30 on board the Volere, which was sailing from Kharg Island to South Korea, was injured. The company gave no detail of any damage but revealed that the supertanker was bound for a different Gulf port, presumed to be Dubai, to take on supplies.

The Eastern Star was hit 90 miles south of Kharg Island and was said to be shipping water. There was no news of any casualties. The vessel is believed to be used by Iran to transport crude to Aden's refinery and return with refinery products.

The raid on Kharg Island, the third in a week, caused no damage, according to "shipping sources" in Bahrain in radio contact with the terminal and quoted by Associated Press.

Iran's declaration that it would refrain from attacks on Iraqi population centres – which in practice have involved the shelling of Basra and the launching of ground-to-ground missiles against Baghdad – came amid signs of a more conciliatory attitude towards a settlement of the 4½-year-old conflict.

A speech given by Ayatollah Ruhollah Khomeini to mark the Iranian New Year hinted of a wish to bring the war to an end.

Nato chief to reveal secret plan on arms

By Bridget Bloom, Defence Correspondent, in London

DEFENCE MINISTERS of 14 Nato nations, meet in Luxembourg tomorrow, to discuss secret plans for reducing and modernising the alliance's stock of short range nuclear weapons in Europe.

The centrepiece of the meeting is the highly confidential report by General Bernard Rogers, Nato's supreme military commander in Europe.

The report, said to have been *seen so far by fewer than ten people*, is believed to recommend in great detail, how Nato can give practical effect to the decisions that defence ministers took 18 months ago, *in Montebello Canada*, to reduce Nato's battlefield nuclear weapons, from their present total of 6,000 to 4,600.

The decision to reduce the battlefield weapons, which range from artillery shells and mines to short-range rockets, has been controversial within Nato.

Gen Rogers, recently declared that reducing the stockpile by 1,400 weapons was a "high risk" policy. He accused the officials who suggested the reduction of acting unscientifically, thus by implication accusing the defence ministers, who accepted the official recommendation, of acting for political *reasons only, without due regard* for the military facts involved.

In the light of these criticisms defence ministers are anxious to see this week, what reductions Gen Rogers himself recommends. His report is the result of a five-year study which he pointedly refused to speed up after the *Montebello* decision.

It is suggested in Brussels that while the Rogers report will probably accept the reduction of 1,400 weapons it will lay great emphasis on the need to modernise the arsenals which remain.

The Montebello decision had clear political motives since it was made in October 1983 only weeks before the new U.S. cruise and Pershing II nuclear missiles were deployed in Britain and West Germany.

Ministers had pledged that the new U.S. missiles would not mean a net increase in Nato's nuclear warheads in Europe.

However, officials maintain that such a decision was overdue since it has become increasingly clear that the use of so-called battlefield nuclear *weapons as part of Nato's* nuclear deterrent would be less and less credible.

Among the first weapons likely to be withdrawn are the atomic demolition mines introduced in the 1950s.

No overall figure of battlefield weapons has ever been officially *published* but others to be withdrawn include the Nike Hercules anti-aircraft missiles. These are due to be phased out by the early 1990s, being replaced by the non-nuclear Patriot.

UK may raise borrowing target to allow larger cuts in taxes

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MR NIGEL LAWSON, the UK Chancellor of the Exchequer, yesterday hinted at the possibility of a modest increase in the public-sector borrowing target next year to permit larger tax cuts, provided that the inflation rate was declining.

He said that, after the past year's problems of the coal strike and the strong dollar, it may be that "as we sail into calmer waters there is room next year for some adjustment."

While refusing to discuss any figures, Mr Lawson said: "There might be room for some slight adjustment in the monetary/fiscal policy mix."

A tight monetary policy might, he said, be combined with "a slightly more relaxed fiscal policy than implied in the Red Book (public-sector borrowing of £7½bn ($8.85bn) in 1986–87) if circumstances permit."

Mr Lawson repeatedly emphasised that this was only a possibility and the scope for adjustment would be modest and dependent on inflation being on a downward path.

His guarded remarks were coupled with a warning of the need to keep "a tight control on public expenditure. That is the crucial and critical factor which will determine the scope I have."

The hint about possible future relaxation was presumably intended in part to reassure Conservative supporters after the mixed reception to last Tuesday's budget.

A Market and Opinion Research International survey conducted last week indicates that four fifths of voters believe the budget will not reduce unemployment, while 49 per cent of those polled regard the budget as bad for Britain and 35 per cent good.

The poll also puts Labour narrowly ahead of the Conservatives, at 39 per cent against 37 per cent, with the Liberal-SDP Alliance at 22 per cent. It is the fourth recent survey which has put Labour either neck-and-neck or slightly ahead of the Government.

On Saturday Mr Roy Hattersley, Labour's deputy leader, claimed there was now visible evidence that the tide had turned for the party.

The Government now intends to counter-attack over its employment record. Mr Lawson claimed yesterday that his budget would have "a significant impact on job prospects."

Rapid deal on Ulster ruled out

Continued from Page 1

cles were overcome. "Failure is always *possible until success is actually achieved*," he said.

Mr Nicholas Scott, deputising for Mr Hurd over the weekend, described the newspaper story as "a substantial over-eating of the pudding" The main difficulty, as Mr Scott made clear, was the precise role the Dublin Government *should* play.

Mr Scott, speaking on Irish radio, repeated the British Government's view that there could be no executive role for Dublin in the affairs of Northern Ireland but that there was scope for improved consultation and co-operation.

The Irish Government and the main nationalist party in Northern Ireland, the Social Democratic and Labour Party (SDLP) are both believed to feel some sharing of sovereignty is essential, if the Catholic *minority is to give its full support to* Northern Ireland institutions, especially in the security and judicial fields.

The SDLP leader, Mr John Hume, said speculation was dangerous in that it raised fears which might not be realised and hopes which might not be fulfilled.

The speculation brought hostile Unionist reaction, especially from the Rev Ian Paisley, leader of the Democratic Unionist Party. He said there could be no role for Dublin in the affairs of Northern Ireland. "If *some* shoddy deal *is* patched up to please the Republic and buy off the SDLP and forced on the Unionist people, it will not stick. We will not have it and will resist it with everything we have," he said.

Mr James Molyneaux, Official *Unionist leader, said he also* believed discussions were under way "to unhinge the Ulster people" but he did not believe Mrs Thatcher would allow any tampering with Northern Ireland's constitutional position and advised Unionists to keep their heads.

His sentiment was echoed in a different form by the former Northern Ireland Secretary, Mr James Prior, who said Mrs Thatcher was someone absolutely committed to the unity of the UK and Unionists had nothing to fear in that regard. She would expect Unionists to co-operate fully in sensible measures towards peace, and this could best be done by enabling the minority to play a full part in the internal government of Northern Ireland.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	16	61	Dubrovnik	C	14	57	Malaga	C	19	66	Salzburg	C	9	48
Akrotiri	F	16	61	Faro	C	15	59	Malta	S	18	64	Seoul	S	18	64
Algiers	R	15	59	Florence	C	15	59	Manila	S	35	95	Singapore	T	31	88
Amsterdam	C	7	45	Frankfurt	R	9	48	Miami	S	28	83	Stockholm	C	1	34
Athens	S	16	61	Funchal	C	19	66	Milan	S	11	52	Strasbourg	C	10	50
Bahrain	S	29	84	Geneva	C	10	50	Moscow	S	8	46	Sydney	S	26	79
Bangkok	S	34	93	Gibraltar	S	17	63	Munich	F	10	50	Taipei	S	22	72
Barcelona	F	14	57	Guernsey	C	7	45	Nairobi	C	25	77	Tangier	F	15	59
Beirut	R	16	61	Helsinki	S	3	37	Naples	F	15	59	Tehran	—	—	—
Belgrade	S	15	59	H. Kong	C	19	66	New Delhi	S	29	84	Tel Aviv	C	17	63
Berlin	S	11	52	Innsbruck	F	10	50	New York	C	9	48	Tenerife	—	—	—
Biarritz	F	11	52	Inverness	—	—	—	Nice	S	14	57	Tokyo	F	10	50
Blackpool	C	6	43	Istanbul	F	6	43	Oporto	F	14	57	Toronto	C	8	46
Bordeaux	F	11	52	Jersey	H	5	41	Oslo	Sl	1	34	Tunis	S	21	70
Brussels	C	8	46	Jo'burg	S	26	79	Paris	F	9	48	Valencia	S	17	63
Budapest	C	7	45	Las Palmas	F	22	72	Prague	F	8	46	Venice	F	11	52
B. Aires	R	24	75	Lima	S	27	79	Reykjavik	S	-1	30	Vienna	R	6	43
Cairo	C	22	72	Lisbon	F	15	59	Rio de J'o	S	31	88	Warsaw	R	3	37
Cape Town	S	24	75	Locarno	F	10	50	Rome	F	15	59	Zurich	S	10	50
Caracas	C	28	82	London	C	10	50								
Casablanca	C	16	61	Los Angeles	C	29	84								
Copenhagen	Fg	2	36	Luxembourg	R	5	41								
Corfu	F	15	59	Madrid	F	13	55								
Dublin	C	6	43	Majorca	S	17	63								

Readings at mid-day yesterday.

C–Cloudy D–Drizzle F–Fair Fg–Fog R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder H–Hail

Paris bourse plans

Continued from Page 1

encourage capital increase operations, including the abolition of the 1 per cent tax on such operations. This measure will cost the Government about FFr 200m a year in lost revenues, officials calculate.

To enhance competition among stockbrokers the Government is also increasing the size of the discounts brokers can offer on their *commissions. For share* transactions under FFr 2m and bond trades under FFr 10m, the current limit on discounts is 27.5 per cent. This ceiling will now be raised to 35 per cent and eventually to 40 per cent.

On transactions over FFr 2m for shares and FFr 10m for bonds, brokers will be able to fix their discounts freely; while on transactions over FFr 60m there will no longer be any commission.

Government officials argue that the current euphoric atmosphere of the French bourse, where stockbrokers saw their turnover increase by an average of 80 per cent last year over 1983, favours the gradual *deregulation* and modernisation of the domestic markets.

Many operators on the bourse acknowledge the irony of the fact that the market has never undergone so many changes and enjoyed such bullish activity as it has since the Left took over in France.

THE LEX COLUMN

A dark gleam in the gold fields

Last week the old gold dog turned on his tormentors. The gold price has dozed for two long years, disturbed only by casual kicks from bullion dealers selling short, and some people had forgotten that it still had a few teeth. After a week spent frantically unscrambling short positions as the gold price touched a two-year peak of $350 an ounce, many traders were sporting *torn trousers*.

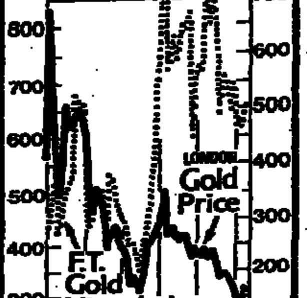
In the bullion market, past price movements are scarcely easier to interpret than the future; and chastened traders were prodigal with signals they had missed. During its four-month stay under $300, gold attracted surprisingly strong physical *demand*. Any excess could be covered through short sales on the futures exchanges – although that was only storing up trouble for later on. Even without Mr Volcker's utterances on the value of the dollar, or concern about savings banks in the State of Ohio, the market was vulnerable to a rally; inevitably in a commodity so dominated by technical analysis, everybody's chart points turned out to have been the same.

Last week brought to mind the last bear-market rally which began in the summer of 1982; as well it should, with a $300 base price and the U.S. thrift industry playing the same roles. But the last rally evaporated because of the very high rates of return on dollar investments; and only the wildest gold bug would surmise that U.S. savings institutions were about to vanish in a banking collapse or real returns shrivel in a fiercely inflationary environment.

But gold investors, of all people, are trained to believe that when a tyrant begins to weaken there is unrest throughout the empire; even the Swiss, who sold into the last rally, *show signs of wishing to hedge* large dollar holdings.

With the gold price closing out the week in London at $315.50, many will claim that bullion has found a new level, above rather than below $300, where it can attract physical support in due time: indeed the fire price paid by Italian jewellers has been stable since 1982 as, no doubt, has been the number and splendour of Yemeni weddings. At the very least, traders will be less keen to sell the old dog short or leave call options wildly uncovered for a week or two.

Wild factors on the supply side of the gold equation have to include distress sales from South America and the hard-currency harvest required by the Russians. While it may be too much to credit that the last of the debtor country hoards



have been shaken out, let alone the winnowing of krugerrands from an increasingly unhappy U.S. farm belt, the apparent lack of supply from the Soviet Union is a puzzle.

Having closed their favourite outlet in Zurich, the Russians are thought to be unwilling to sell in quantity below $400 an ounce. In any event, this year at least they have a more adequate grain harvest behind them, and less pressing need for dollars, despite the poor price they have been getting for their oil.

The sudden revival of bullion has quite reversed any effect on gold shares from the South African budget, which understandably took another stab at the windfall profits the mines enjoyed from a collapsing rand. The increase in the surcharge will hurt those mines that were laggard in completing their capital expenditure during the period of large rand-denominated profits; but those investors who find gold too prone to slumber without generating income do not seem to distinguish much between mines.

The sector took off in the summer of 1982 and has remained at high levels, confounding those who fix only on the dollar price of the metal. It has easily outperformed bullion in either direction but is increasingly supported by liquid American gold funds seeking a way in. These probably now own nearly 30 per cent of the floating equity, while the mining finance houses must keep up holdings to maintain mine control.

Prospective dividend yields on the better mines of 6–7 per cent at the current gold price scarcely sounds attractive compared with a historical risk premium of over double that. After last week's ugly reminder of the cyclical nature of bloodshed in South Africa, the point is sharper still. But South African yields are still a few points ahead of the North American gold sector.

Should the rand recover in the course of the year, which probably requires a return of political confidence as well as a further slippage in the dollar, then foreign investors will enjoy an uplift in their dividend income, particularly from low-cost producers. Foreign interest could then compensate for a strategic exit by South African institutions – reluctant investors in the sector to begin with, dragged in by exchange controls.

Given the current pressure for disinvestment, moreover, lumpy U.S. holdings are scarcely a source of stability for mining shares; volatility is perhaps their most reliable feature.

Alfayed/Fraser

After all the shenanigans of the last eight years, it must be a relief to shareholders in House of Fraser to see the hard print of an offer that they have no reason to refuse. As Fraser's valedictory profit estimate confirms, the 400p a share offered by the Alfayed vehicle values Fraser at 22 times last year's earnings, scarcely cheeseparing terms. Fume as it may, even Lonrho will presumably decide – like any other small shareholder – to take the Alfayed money.

Apart from Fraser's profit estimate, itself no surprise, the offer document is exceedingly short on information of any kind. Although there is no need for shareholders to worry over the more exotic questions raised by Lonrho, neither are they told anything new about the Al-Fayed family finances, or at any rate nothing of substance.

Thus, questions of the ownership and solvency of Alfayed Investment and Trust – the UK company actually making the offer – are settled by reference to its parent in Liechtenstein, about which little is said other than that the Al-Fayeds own it.

To set out a balance sheet for the UK vehicle is a meaningless ceremony, throwing the credibility of the offer back upon the sterling assurances of Kleinwort Benson, a bank which has itself in the past been known to worry about the beneficial ownership of Liechtenstein holding-foundations. However solid the present offer may be – with the additional merit of not getting blocked by the Department of Trade and Industry – it should not become the done thing for UK takeover bids to be made through indirect and inscrutable foreign vehicles.

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FINANCIAL TIMES SURVEY

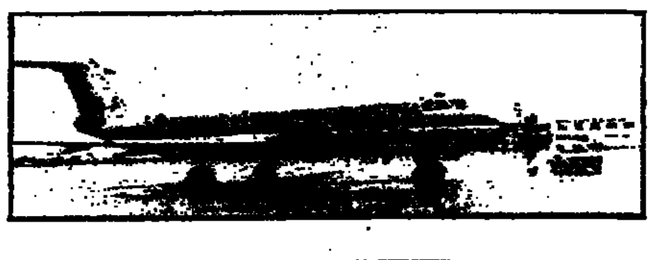
Regional Airports and Air Services

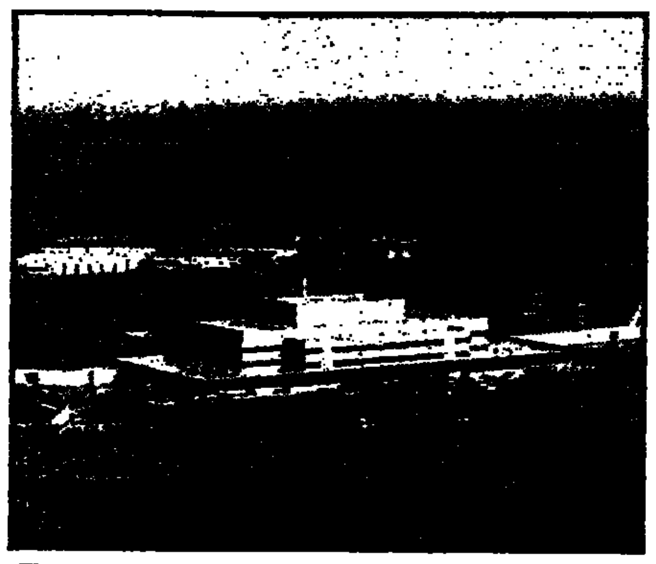
UK air travel is recovering strongly from the recession and regional airports are sharing in the expansion of services and new investment now taking place

CONTENTS

Design: Philip Hunt: Editorial production: Arthur Dawson.

A de Havilland (Canada) Dash Seven of Brymon Airways at Plymouth Airport. Below: an 80-seater F28 operating between Amsterdam and the Channel Islands by the Dutch airline, NLM CityHopper. The two pictures show the wide diversity of facilities available to regional airlines





The terminal building for oil-related traffic at Sumburgh Airport, Shetland. The airport has been developed by the Civil Aviation Authority over the last five years at a cost of £32m.

Strong growth expected

By MICHAEL DONNE

Aerospace Correspondent

THE DEBATE during recent months on how to expand airports in the London area to meet the expected growth of air travel through to the end of this century has also highlighted the development plans of the large number of regional airports throughout the country.

Many of these, concerned at the prospective heavy expenditure planned for the London and South-East, have made it plain that they, too, would like more support and encouragement from the Government, and the air transport industry, for their own ambitious expansion plans.

The UK has in all over 140 "airports" licensed as such by the Civil Aviation Authority, although there are many more "airfields" of all kinds, including military airfields. Broadly, the definition of an "airport" is a place that is available for, but not necessarily used by, public service air transport, either on a scheduled or non-scheduled basis.

"Regional" airports are generally taken to include all those outside London and its immediate environs—although there are some who regard Luton, for example, whose catchment area covers much of north London, as a regional airport in its own right.

Some of these regional airports are little more than mere strips (even just the beach, as in some Scottish Highlands and Islands airports), but the scale goes up to such big international airports as Manchester, Glasgow and Birmingham.

Some of the regionals incur losses, some make substantial profits. Some are owned by local authorities, some by the British Airports Authority and the Civil Aviation Authority, and some privately. All, in some way or another, make some contribution to overall UK public service air transport.

Catchment areas

It has been suggested during the recent controversy over how to develop the overall airports pattern that the UK as a whole is in fact over-endowed with such places, given the country's dense surface road and rail transport system. But the opposite view, held by many in aviation, is that as air travel of all kinds — scheduled and charter, business and leisure—expands through the rest of this century, even some of the smallest and remotest of these airports will prove to be of value.

It is undeniable that the "catchment areas" of many of these airports overlap significantly, so that in many parts of the UK, travellers already have a choice of situations from which to start or end their journeys by air.

This has also often made it difficult for airlines to determine where new services should be introduced, especially for international operations, and as a result they have tended to opt for the airports already of significant size—Manchester, Birmingham and Glasgow, for example.

This trend seems likely to continue, especially since it has already been demonstrated in air transport that frequency generates its own demand—the more air services that exist from a given airport, the more traffic it is likely to attract (albeit perhaps slowly), thereby in turn giving rise to demand for more frequencies and services, and so on.

The air services now developing throughout the regions encompass many different types of operation — large, trunk-line operations linking major cities with each other or with London using jet airliners, down to small "local service" operations often involving little more than one or two light aeroplanes.

It is this entire wealth of airports and air services serving the regions that is the subject of this survey, and that many in aviation wish to see expanded, in addition to any growth that may occur in London and the South-East (or, according to some extreme viewpoints, in place of expansion at the latter places).

Collectively, for 1984 as a whole, the UK airports are estimated to have handled well over 66m passengers, of which most (about 46m) were handled by the four London airports (Heathrow, Gatwick, Stansted and Luton), leaving around 20m for the regional airports themselves.

Overall, traffic growth in the regions compared with the previous year was at a much lower rate than the 10 per cent recorded at the London area airports, but some individual airports did much better than others—Manchester, for example, recording a growth of over 16 per cent in total passenger traffic, to over 6m.

The latest growth forecasts, issued last July by the Department of Transport, indicated that, by 1990, total UK air traffic would amount to anywhere between 80.1m and 100.8m passengers a year (the "low" and "high" forecasts), rising to 93.7m-133.6m by 1995, and further to 105.8m-172.8m by the year 2000. The very wide span of the DoT's forecasts indicates the difficulties of forecasting an industry as volatile as air transport.

Within those overall figures, the traffic handled at regional airports (that is, those airports outside the London area) is forecast to amount to between 25.5m and 34.3m by 1990, rising to 28.8m-43.7m by 1995, and further to 31.7m-54.8m by the end of the century.

The forecasts were made earlier last year, for publication in mid-year, and so did not take account of the strong continued growth that emerged in the latter part of 1984, and which has been continued so far into 1985.

This trend, if sustained, indicates that the ultimate growth is likely to be closer to the upper end of the DoT's forecasts, and that airport authorities, airlines and others contemplating investment in new facilities and services would do well to take that into account in preparing their plans.

In spite of some problems in the holiday tour market, UK air traffic is rising and the regional airports are already getting a share of that expansion, and can expect to continue to do so.

In order to meet it, many regional airports are already undertaking substantial investment programmes to improve the facilities they offer—primarily runway extensions and terminal building improvements, and the associated infrastructure facilities, such as car parks.

Higher spending

Estimates prepared by the Chartered Institute of Public Finance and Accountancy show that the 23 airports in the UK owned by local authorities (covering such major airports as Birmingham, East Midlands, Leeds/Bradford, Luton, Newcastle and Manchester) are collectively spending up to about £41.5m, during 1984-85 on new facilities to meet expected traffic growth.

Much of this cash comes out of the government-controlled local authority spending allocations, but some does come from other sources (one such being EEC development funds which some airports have successfully tapped).

If spending on other regional airports (such as those owned by the British Airports Authority itself, the Civil Aviation Authority and other, private, owners) is included, overall outlays on regional airport expansion in the current financial year is likely to be well in excess of £50m.

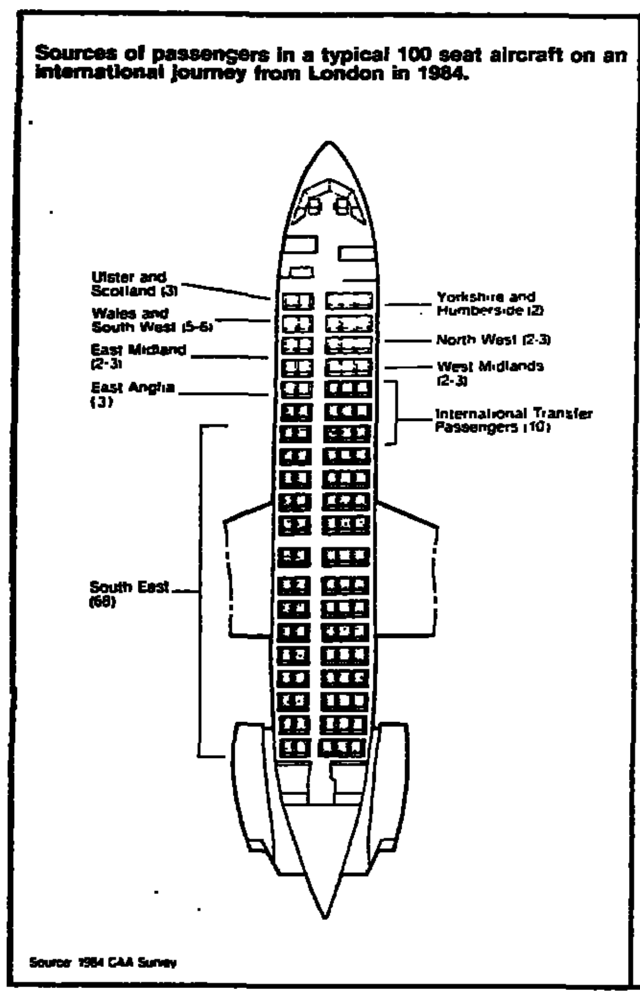
Thus, expansion in air travel seems inevitable, and many regional airports are already taking steps to meet it. Two major questions remain unanswered—indeed, they are probably impossible to answer at this time.

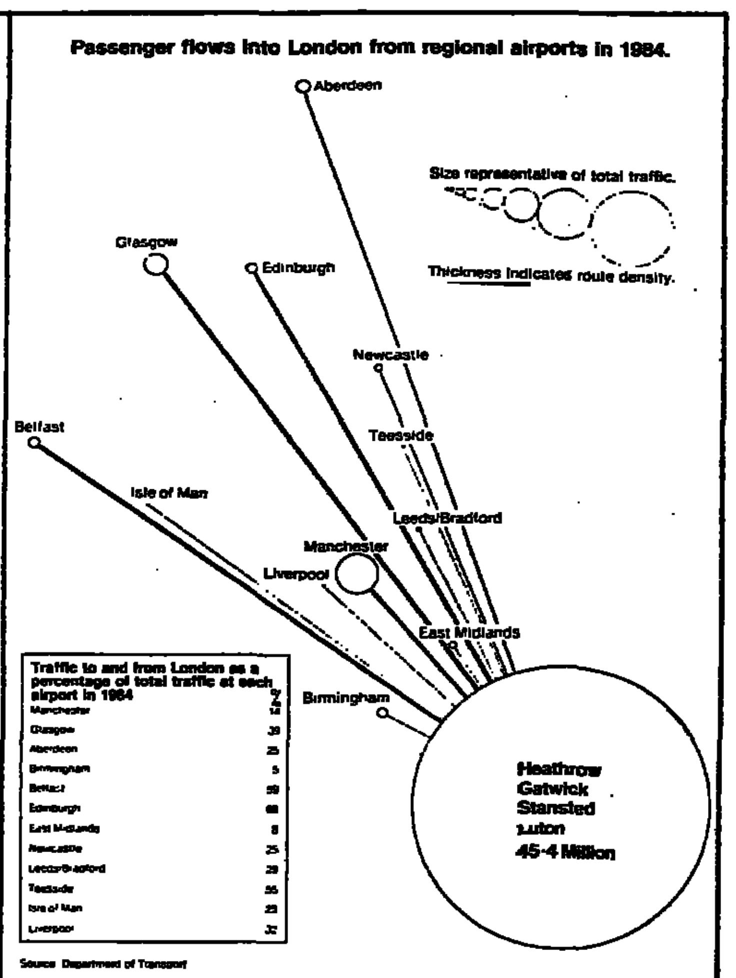
One is whether the regional airports as a whole will get what many of them argue should be a fair—that is, bigger—share of total future UK air travel growth. The other is whether the allocation of financial resources for regional airports development is adequate, or even fair by comparison with the substantial sums it is proposed to spend on the development of airports in the London area, and if not, what could or should be done to remedy that.

Much has been made over recent months of this so-called North-South divide in airport development policy, with the "Consortium of the North," representing many regional airports but primarily led by Manchester, arguing strongly that much of the cash it is proposed to spend on London's airports (Heathrow and Stansted) would be better spent in the regions.

This argument is based largely on the claim that the regions could, and should, be encouraged to cope with a far greater share of all future UK air traffic, and that by continuing to devote the bulk of all

CONTINUED ON PAGE 8





The Charts, prepared by the British Airports Authority, from Department of Transport and Civil Aviation Authority figures, show the volume of traffic flowing from regional airports to London. It represents only a small proportion—6.2m—of the overall total of 45.4m domestic and international passengers handled in the London area last year, the majority of the traffic being generated by the South East "magnet" itself, or international transfer traffic

A surplus of airports and a shortage of passengers

Too many chasing the few

Scotland

MARK MEREDITH

SCOTLAND HAS an airport problem. In the central belt where about 4m of Scotland's 5m people live, there are too many airports with too few passengers and cargo.

Every year letters to Edinburgh and Glasgow newspapers suggest that what Scotland really needs is one big airport smack in the middle of the country within easy reach of most people.

Not only is there a surplus of airports. Scotland is having difficulty asserting itself as an international destination for air travellers. An estimated 82 per cent of visitors to Britain have destinations in the South-East so it is difficult making a strong case for big international carriers to develop a base in Scotland rather than concentrate their traffic through Heathrow and Gatwick airports.

Any development of Stansted airport north of London will further erode the case for more international links through Scotland.

The greater part of the traffic from Edinburgh and Glasgow flies to London. Three airlines, British Airways, British Midland and British Caledonian, compete for the daily traffic to and from the south-east.

Scotland has become important as a feeder to London airports, but promoters of Scotland's airports would like it otherwise. Edinburgh, Glasgow and Aberdeen also act as hubs for smaller aircraft bringing in passengers and, to a lesser extent, cargo from the Highlands and Islands. Attempts have also been made to provide domestic links from Prestwick.

11 customers

Glasgow Airport has 11 airline customers. In addition to the main UK air lines, users include KLM, Icelandair SAS and Aer Lingus. Among international destinations are Amsterdam, Copenhagen, Dublin, Dusseldorf, Geneva, Paris, Reykjavik and Stavanger.

The Highlands and Islands are well-served and include such places as Benbecula, Campbeltown, Inverness, Islay, Skye and Lerwick.

Edinburgh Airport carriers include Loganair, Brymon and most leading UK flyers. International flights go to Amsterdam, Dublin, Frankfurt and Paris while domestic destinations include Belfast, Birmingham, London and Manchester.

Aberdeen Airport has many Scandinavian flights, including Bergen, Copenhagen, Oslo and Stavanger and a wide range of domestic flights.

Like airports in most parts of the Western world, Scottish airports excite political and environmental passions.

The centre of the latest of many looks at the shape of Scotland's air traffic has been the review of Scottish lowland airports policy by the Ministry of Transport. The review, to be published shortly, could help decide the future of Britain's sleepiest international airport, Prestwick, in the south-west near the Ayrshire coast.

Compared with the 26m passengers passing through Heathrow airport in London last year—and the number is rising each year—about 109,000 people landed or took off from Prestwick and the number is falling.

Prestwick is meant to be the Transatlantic gateway for Scotland but only two scheduled carriers, Northwest Orient and Air Canada use it along with a number of charter flights.

British Midland's application, turned down by the Government but still pursued, to fly transatlantic flights from Glasgow airport, has stirred up the issue again. Northwest Orient and Air Canada have made it clear they will want to move to Glasgow if British Midland are able to base their flights to North America there.

The possible expansion of Glasgow to take wide-bodied jets has angered environmentalists along with Prestwick supporters. The runways and apron at Glasgow would have to be extended to take big transatlantic carriers with, say, West or Mid-West destinations. At the moment big jets using Glasgow have to reduce their fuel weight for take-off and this reduces the scope of destinations.

The lobby for Prestwick continues. The airport is in the parliamentary constituency of Mr George Younger, the Conservative Secretary of State for Scotland. He along with Mr George Foulkes, the Labour MP from the neighbouring constituency, have fought hard to retain Prestwick. The British Airport Authority which owns Prestwick along with Edinburgh, Glasgow and Aberdeen, has promoted the Ayrshire airport abroad as a first stop for tourists visiting Europe.

The future of Prestwick as one of the new freeports in Britain depends very much on the continued use of the airport by international carriers. The delay in deciding the fate of the airport has angered the freeport developers who cannot recruit support amid the continued uncertainty.

There is some hope that Prestwick's use as a cargo base can be further developed although the 10,086 tonnes carried through the airport last year (up to the end of January) showed a 3.6 per cent decline on the previous year. The airport, with a one million capacity remains sadly underutilised.

Glasgow shows a promising trend with 2.7 million passengers in the year to the end of January and a capacity around three million. The year's traffic was up 13 per cent on the previous year.

More passengers

Edinburgh, a 45-minute car or train drive from downtown Glasgow, has also seen more passengers. There were 1.5m in the year ending January, a 17.7 per cent rise. The terminal has a passenger capacity of 2m. There is very little cargo traffic. The contraction of holiday flights this year could see the loss of some charter traffic with a concentration on Glasgow.

Aberdeen is Britain's third biggest airport after Heathrow and Gatwick thanks to its importance as a hub for the air-links to offshore oil installations.

Oil traffic has determined the shape of the airport. The use of long-range helicopters has made the use of Sumburgh airport in Shetland only necessary as a bad weather stopover point for most oil companies. This had led to the cancellation of most fixed wing shuttle services to Shetland from Aberdeen but a corresponding rise in helicopter traffic.

More than 660,000 helicopter passengers used the heliport beside the main airport in the year ended January 31 and aircraft movements showed a 6.4 per cent increase.

Dundee's success story

A SMALL success story for Scotland's airports has been the growth of Dundee over the past two years. The airport, run by Tayside Regional Council and the only local government-owned and operated airport in Scotland, is playing an important part in promoting industrial recovery in Dundee.

The airport is the only one in Britain located in an enterprise zone which Mr Berry Hurn, the airport manager, believes offers unique opportunities for aviation-orientated industry.

Dundee suffered from the decline in the jute industry as well as the evolution from electro-mechanical to electronic industries. The Dundee project, now under way, combines urban renewal with professional industrial promotion to bring in new high technology industries. Easy access by air without a road trip first to Edinburgh airport will pay off, the promoters hope.

According to Mr Hurn, twice daily weekday scheduled service to Heathrow, Manchester, Carlisle and Aberdeen has increased passenger throughput at the small airport over two years from 8,000 to 28,000.

CAA proves ambivalent about its role

Highlands and Islands

MARK MEREDITH

THE GOVERNMENT'S hopes to sell off Britain's airports to the private sector have stumbled in the North of Scotland. The six Highlands and Islands airports operated by the Civil Aviation Authority (CAA) were put on the market last year and, after only one bid and a number of inquiries, they were taken off again.

The airports Tiree, Islay, Benbecula, Wick, Inverness and Sumburgh, are operated by the CAA. A seventh airport, Stornoway in the Western Isles, belongs to the Ministry of Defence but civilian air traffic is run by the CAA.

The CAA is not in the business of running airports in the rest of the country where its responsibility is air traffic control. But when the Department of Trade looked about for someone to run the Highlands and Islands aerodromes in 1972, they turned to the only other people on the job, the CAA.

The CAA are publicly ambivalent about their role in the North of Scotland. They would prefer to stick to their primary function, running air traffic but concede that over the years a loyal and able workforce has been built up at these small airports.

The latest Department of Transport review of Lowlands airports in Scotland is expected to look at the other Scottish airports and last year's failed attempt at privatisation eliminates one of the main options.

The economics of these airports will cause the most headaches. They lose between them over £3m a year and there is a limit to the amount of cost savings that can be made.

The small airlines operating to some of these airports also require subsidies from local authorities to stay in business.

The closure of these airports does not seem to be a real option either. This is because of the vital social service they provide to the islands. To stop the air links to Benbecula and Tiree would leave these communities dependent on ferry services and, in the view of local authorities, harm hopes of economic development.

Prime message

The infrastructural role of the airports to the economies of the North of Scotland has been the prime message of the Highlands and Islands Development Board, the industrial promotion body for the Highlands.

The new impetus for oil exploration in the northern North Sea and into the Atlantic has brought some, but not much, promise to these airports.

Sumburgh on Shetland is a case in point. About £30m was invested in the airport on the southern tip of the island group to serve the oil industry. But the advent of long-range helicopters able to fly direct from Aberdeen to the offshore oil installations suddenly undercut much of the use for the aerodrome leaving it idle for much of the time.

Regional Airports and Air Services 3

To mark the 50th anniversary of Alderney airport—the oldest in the Channel Islands—the Guernsey Post Office has issued five regional Alderney commemorative stamps. They show three of the early Channel Islands aircraft, Saunders-Roe Windhover (34p), De Havilland Dragon Rapide (31p) and De Havilland Heron (29p), together with a present-day Trislander of Aurigny Air Services (13p) and a Wessex helicopter of the Queen's Flight (9p) (not shown above).

Into the international arena

Belfast

ALAN WATSON

THE Civil Aviation Authority's liberalisation of UK air routes has reopened the debate about whether Northern Ireland needs two airports, both of which are state-owned.

The main airport, at Aldergrove in Belfast, is owned and operated by Northern Ireland Airports, part of a government transport holding company. It is Britain's sixth busiest airport, with passenger movements up 13.8 per cent in 1984 to a record 1.6m.

Last year it adopted a new name, Belfast International, on completion of an ambitious £25m development programme heavily financed by government and EEC grants. New terminal buildings include a 300-seat lounge.

It has become one of Europe's most modern regional airports, with CAA Category Three status to enable all-weather operation and has won government approval for a final stage in development. About £5m will be spent on further improvements, mainly to facilities for domestic passengers, the airport's main users.

Heaviest traffic is to London, with British Airways and British Midland Airways competing fiercely on the Heathrow route and Dan-Air serving Gatwick with jets. A further dozen UK destinations are served by a variety of carriers. NLM of Holland flies scheduled jets to Amsterdam and charter flights serve many European and North American cities.

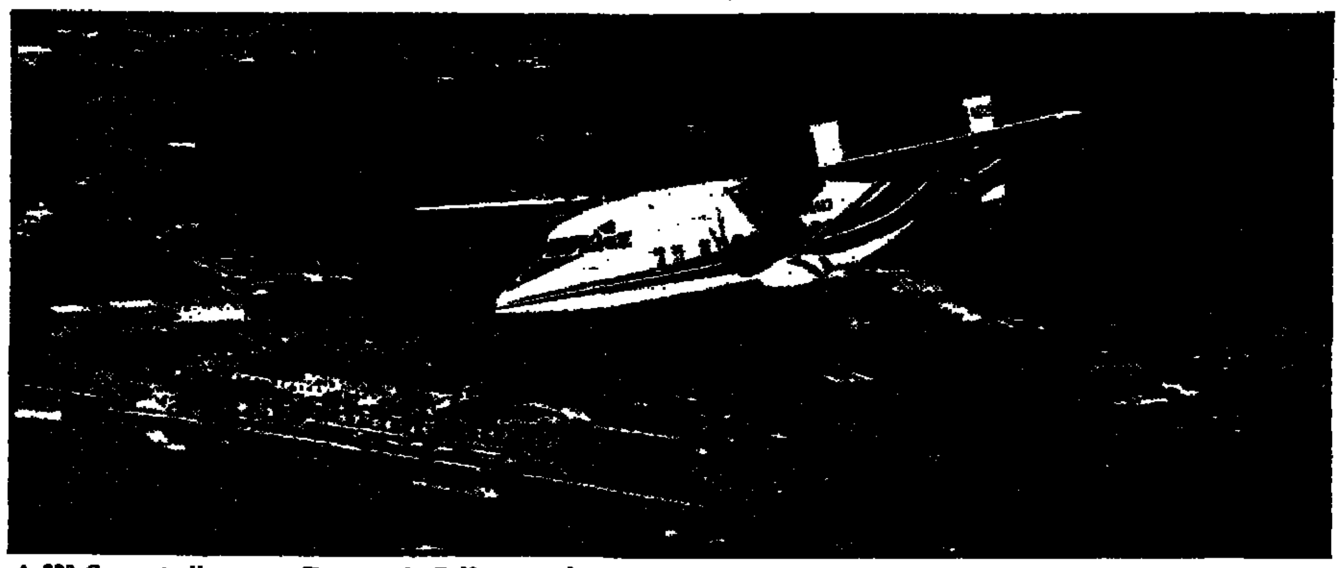
A 70-acre site next to the airport was designated as one of Britain's freeports. Its development has been slower than expected but will be helped by the creation of a freight village to handle growing volumes of national and international air freight.

Northern Ireland Airports is concerned about the loss of £600,000 annual revenue through competition from Ulster's second airport, Belfast Harbour, which lies within minutes of the city centre. It was opened to commercial traffic in February 1983 by Short Bros., the state-owned aircraft manufacturer.

Belfast Harbour is included in the CAA's deregulation experiment, although the authority it prepared to hear objections to the inclusion.

Last year the airport handled 175,000 passengers and produced a small profit. Its users are small commuter airlines. Loganair flies to Glasgow, Edinburgh and Manchester, Manx Airlines to the Isle of Man and Liverpool; and Spacegrand to the IoM, Blackpool and Teesside.

Short Bros. says its main aim is to encourage sales of its 33 and 36-seat commuter aircraft, not to undermine Belfast International. It has excluded scheduled jet services for the two-year deregulation plan and says its no-frills policy has forced the main airport to hold or reduce charges which were driving small operators out of the Northern Ireland market.



A 330 Commuterliner over Shorts main Belfast complex at Belfast Harbour Airport. Short Brothers is a major manufacturer of small airliners for the world's regional and commuter airlines

Jersey stays in the top four

Channel Islands

EDWARD OWEN

AT PRESENT the Channel Islands' three airports are government-run, but the smallest, serving the 2,000 inhabitants of Alderney, could soon be privatised.

While Jersey's airport contributed a healthy £1.3m to the Island's general revenue last year, and Guernsey's put a surplus of £141,734 into a ports holding account, Alderney's tiny airport is being subsidised by local taxpayers to the tune of over £150,000 a year.

The problem at Alderney is that there is virtually only one carrier, Aurigny Air Services—a pioneer user of Islander and Trislander planes—and little scope for expanding either resident or tourist traffic.

An offer by British Airports International to take over management at Alderney has therefore been welcomed locally and is now to be discussed with Guernsey's government, which is responsible for its small dependency's airport.

The only challenge to a BAI takeover is likely to come from Aurigny which, with a staff of 25 based in Alderney, sees no reason why it should not manage the airport itself—especially as the airline has had to apply for a second fares increase within six months to cover the rising airport charges.

With a 14-stand passenger pier and over 35 British and Continental airlines calling there, Jersey is in the big-city league, only recently pushed out of third place among British airports in terms of passenger and aircraft movements by Aberdeen. Last year Jersey handled some 1.5m passengers.

Guernsey, which handled 587,000 passengers, has dropped in position because it does not have the overseas charter departures that have boosted many mainland airports' figures, nor—unlike Jersey—many charter flights into the island.

The bulk of Guernsey's incoming package tour business is handled on a part-charter basis by scheduled carriers such as Air UK, British Midland, Dan-Air and Guernsey Airlines.

Jersey has the same scheduled carriers from the UK mainland as Guernsey with two important additions—British Airways and British Caledonian. It is these airlines that bring in the island's biggest aircraft, British Airways' Boeing 757 and BCal's Airbus 301.

The heaviest aircraft normally using Guernsey airport are Hercules cargo planes, two of which carried out a major airlift of tomatoes during last year's dock strike. The largest passenger aircraft—and the only jets—are F28s operated from Amsterdam by NLM City-Hopper and Dan-Air's BAe 146 flying from Cardiff and Bristol.

While Jersey and Guernsey keep their fees roughly in line (both are going up by about 6 per cent from April 1), Jersey claims that its charges are the lowest of any sizeable airport in the British Isles.

Jersey has a source of revenue unique among British airports, although receipts have been reduced lately by currency fluctuations. Since Channel Islands air space is outside the control of the UK Civil Aviation Authority, Jersey is able to collect fees from Euro-Control for en-route meteorological and air control services to aircraft flying over the CI zone.

Easing the burden on ratepayers

Cardiff and Bristol

ROBIN REEVES

THE FAITH of South Wales and Bristol local authorities in the future of their municipal airports, is at last being rewarded. After a number of lean years, charter services are now expanding rapidly, the number of scheduled flight destinations is increasing, and both airports are ceasing to be a burden to local ratepayers.

Cardiff Wales airport ended last year just 13,000 short of the 500,000 passenger mark. Its total of 487,000 passengers, of whom a record 428,000 started and finished their air journey at the airport, was up 10 per cent on the previous 12 months.

Bristol's traffic meanwhile jumped by nearly 24 per cent to 375,675 passengers in 1983-84 and in the current financial year, it is confidently forecasting a rise to 450,000 passengers, representing a further increase of nearly 20 per cent.

Financially, Bristol has moved from a small operating surplus three years ago to an expected operating profit of just over £1m in 1984-85, while Cardiff has been able to all but clear the large debt burden which arose from its construction of a large-capacity modern terminal in the early 1970s.

Bristol is now investing some £3m over two years to extend and improve passenger handling facilities and amenities and extend its aircraft parking apron. Cardiff is poised to add a 720 ft extension to its main runway to allow the take-off of fully-laden, fully-fuelled modern transatlantic jets.

Holiday charter business has inevitably accounted for the bulk of the traffic growth. Indeed, although at Cardiff the number of charter flight passengers rose by 12 per cent last year, there were in fact 29 per cent more seats available; tour operators were a little over-optimistic about the growth in demand.

Nevertheless, Cardiff is confident it will handle more than 500,000 passengers this year for the first time, since additional capacity and destinations are scheduled, notably to Greece, Yugoslavia and Cyprus.

Bristol, with 78 tour operators already using the airport for over 300 resorts and destinations in Europe, the Mediterranean and North Africa, is similarly confident.

Equally heartening has been a recovery in scheduled services after the setbacks of the 1970s and early 1980s, when the recession combined with mounting fuel prices undermined established networks.

British Airways in particular not only withdrew the network of services from Cardiff it acquired with the takeover of Cambrian Airways, but also from its maintainance base at the airport. The subsequent acquisition of the maintenance base by British Air Ferries also proved unsuccessful.

At both airports, only Danair subsequently proved able to keep open a scheduled air-bridge to the Continent with daily flights to Amsterdam, as well as Dublin and Belfast.

But now Euroflight is making a determined effort to re-establish scheduled links with other destinations. It has just introduced a Brussels service and, from April 1, it is introducing a daily service to and from Charles de Gaulle, Paris. And Bournemouth-based Metropolitan is running regular services to and from Manchester, Leeds, Newcastle and Glasgow.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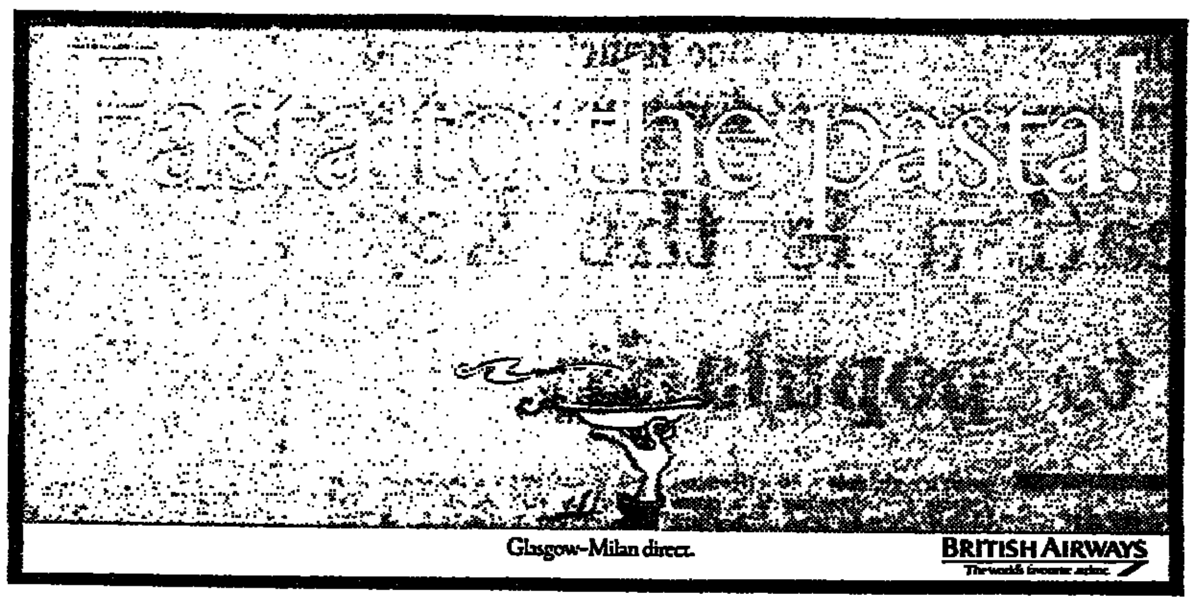
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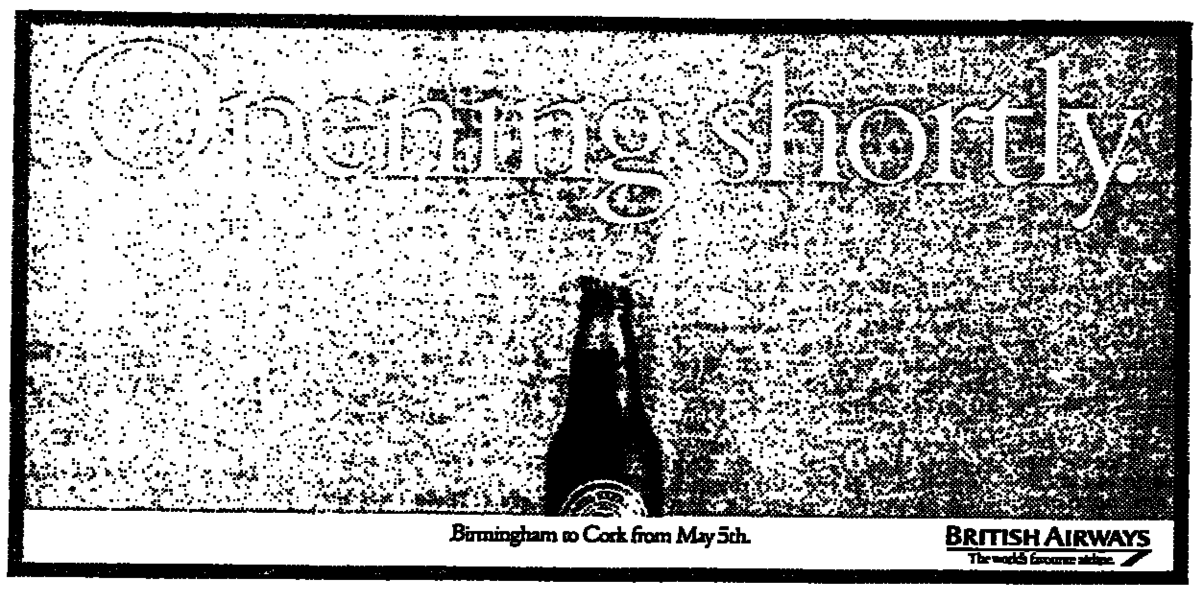
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Birmingham to Cork from May 5th.
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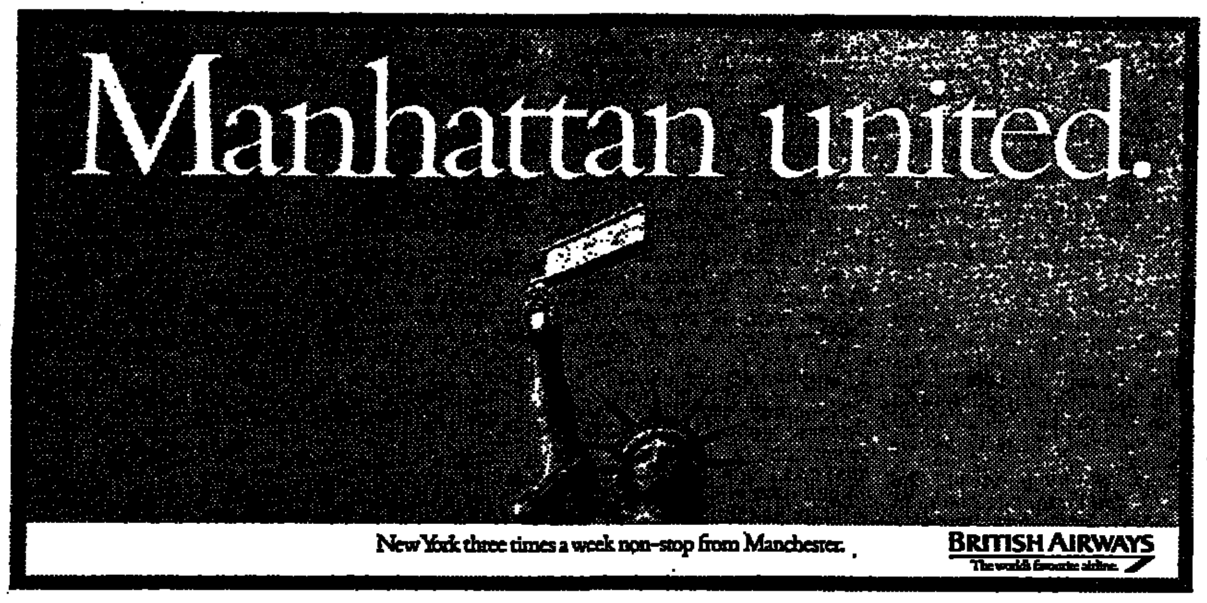
Manhattan united.
New York three times a week non-stop from Manchester.
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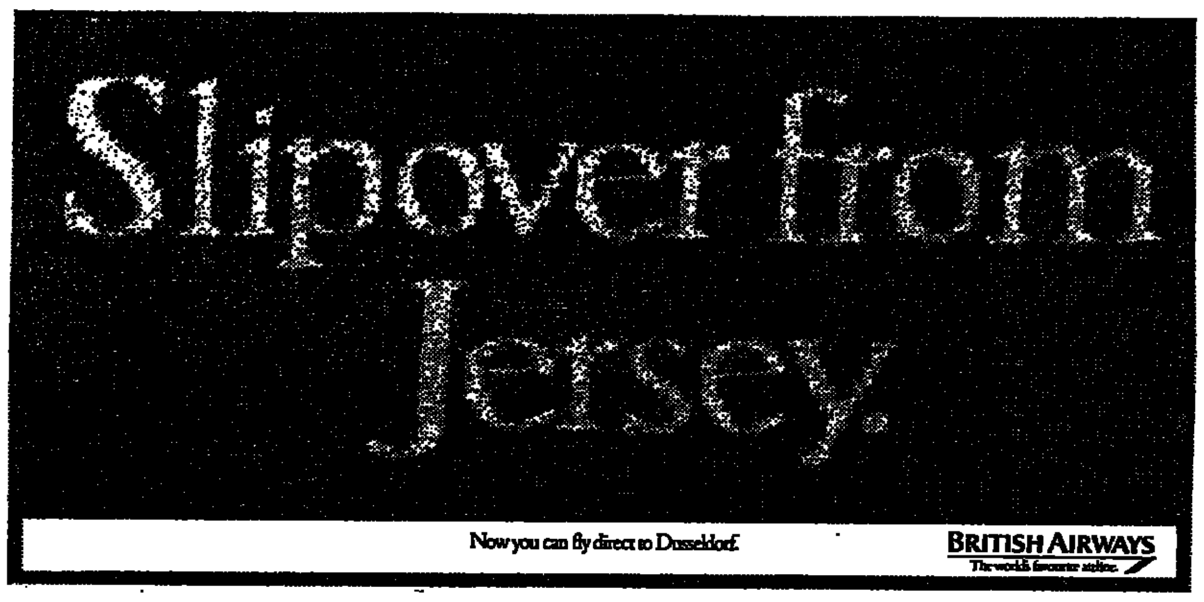
Slipover from Jersey.
Now you can fly direct to Dusseldorf.
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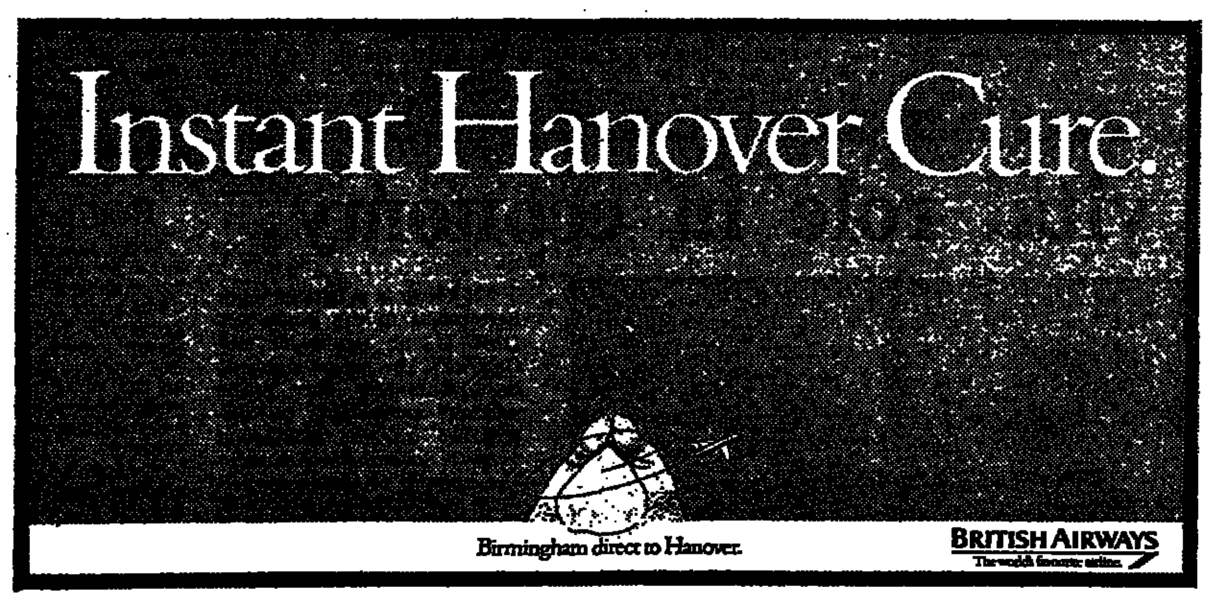
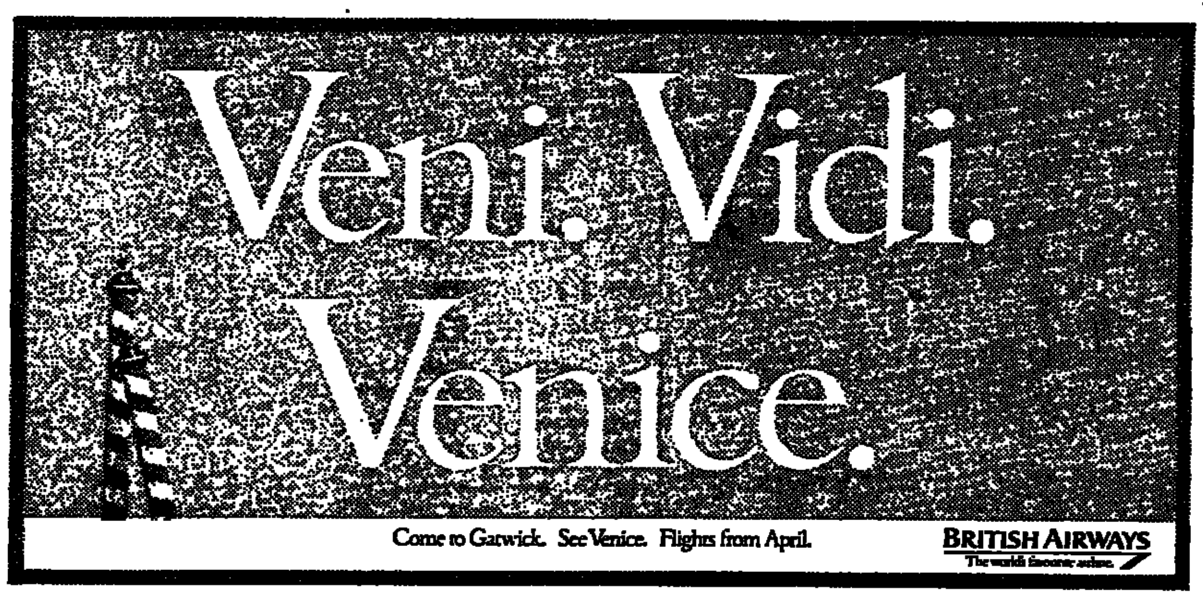

Instant Hanover Cure.
Birmingham direct to Hanover.
BRITISH AIRWAYS
The world's favourite airline.


Veni. Vidi. Venice.
Come to Gatwick. See Venice. Flights from April.
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The world's favourite airline.


Amsterdam Belfast.
Belfast-Amsterdam direct.
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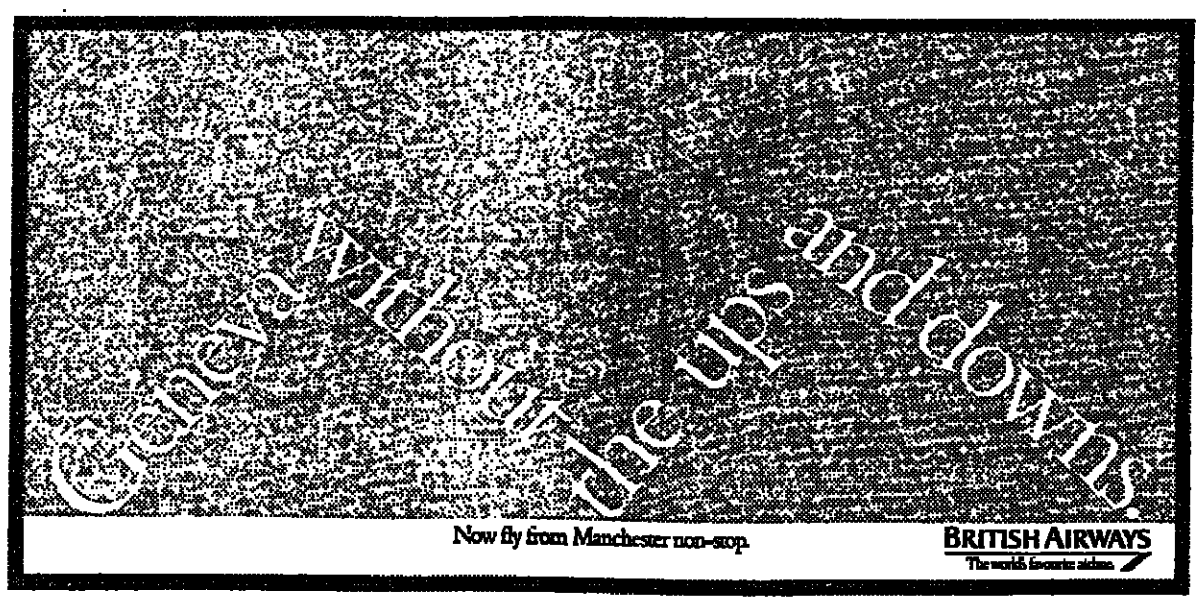
Geneva without the ups and downs.
Now fly from Manchester non-stop.
BRITISH AIRWAYS
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Some 20m people live within one hour's drive and catchment area runs from Midlands to the Border

Location is the key to popularity

Manchester

IAN HAMILTON FAZEY

UNTIL RECENTLY the major flaw in Manchester Airport's argument to be made the second hub of Britain's airways had nothing to do with merit.

As Mr Bill Charnock puts it: "We were so innocent that we believed that merely having a strong case and people wanting to fly in here would be enough. We didn't realise that we also had to do a lot of lobbying and applying pressure."

Manchester's recognition of this became clear last year when Mr Charnock was promoted from commercial manager to a new post, head of external affairs. His job involves marketing the airport to airlines, overseas promotion, liaison with the travel industry and its representative associations, and links with governments and regulatory bodies in London, Brussels, and Washington DC.

The first fruits of this more aggressive, face-to-face, approach to the world industry's decision-makers are appearing this spring, with 12 new direct flights to international destinations, including New York, to add to 35 existing scheduled routes. Hong Kong and Bahrain will follow in the autumn, with Singapore among eight new direct routes already planned for next year.

The underlying message is summed up by the airport's publicity chief Ms Dianne Nevin: "We have long since ceased to be regarded as a regional airport. Qantas has been flying two jumbos a week from here for the last two years. They had enough belief in our case to take a very big risk. The fact that they are still here speaks for itself."

Market research

What brought Qantas into Manchester was market research. This showed that in 1983 nearly 50,000 people from the North of England went to Australia via Heathrow. But to get a licence to chase this market with a scheduled service from Manchester, Qantas had to let its own market share be attacked by conceding a London-Adelaide route to British Airways.

This sort of horse-trading has bedevilled Manchester's development, with international airlines nibbling at the bait but then discovering that the price of scheduled flying from the North would be one less flight into Heathrow or Gatwick.

Officially, Manchester ceased to be merely a regional airport in 1978, when it was given Category A International Gateway status. But that alone was not enough. Mr Charnock says: "The problems have been the limitations of the Government's attitude to licences. Things are changing to a more liberal attitude now. They are beginning to appreciate us as an international airport."

New International carriers will be El Al, Lufthansa, and Singapore Airlines. Their scheduled services will add to those of KLM, Qantas, Iberia, Sabena, SAS, Aer Lingus and Cyprus Airways, but there is still a long way to go to be able to boast a full spectrum of world airlines.

Domestically, however, Manchester can boast a wide range of scheduled destinations, with a very convenient Heathrow shuttle service, four Scottish destinations — Aberdeen, Glasgow, Dundee and Edinburgh — Belfast and Belfast Harbour, Birmingham, Cardiff, Gatwick, the Isle of Man, Newcastle and the Channel Islands.

These routes also have international significance: the quickest way to Scotland from, say, the commercial centres of Northern Italy, is via Manchester, not London, and the airport is trying to exploit this.

The airport is owned jointly by Greater Manchester County Council and Manchester City Council, which run it through a joint authority, rotating the chairmanship.

Being thus answerable to sometimes rebellious local politicians has probably not always been helpful, especially with London's airports in the hands of the state-owned British Airports Authority and inevitably closer to Whitehall and Westminster.

New services

Although no one claims cause and effect, there does seem to be a remarkable coincidence between the dawn of the new liberal attitude and the Government's privatisation programme for state industries. For example, British Airways, which had curtailed some direct overseas services before privatisation loomed—much to the chagrin of many northern business travellers—is now rushing back to Manchester.

Next month BA starts new scheduled services to New York, Geneva, Munich, Malta and Larnaca. The airline will add Hong Kong and Bahrain in the autumn and Madrid, Lisbon, Oporto, Athens and Cork in 1986.

One reason why a commercially astute BA needs to nail its colours to the Manchester control tower is plain from the northern airport's 44-page timetable: 33 of those pages give all the ways of getting to 186 destinations that cannot be reached directly: in many cases the fastest route is to use Zurich, Brussels, Paris, Amsterdam or Frankfurt for transit in preference to Heathrow—to the benefit of Swissair, Sabena, Air France, KLM or Lufthansa: not BA.

The figures show no shortage of demand: passenger throughput is currently 6 million a year from 3.4 million in 1978: this is expected to rise to 8.5 million by 1990, when a second passenger terminal should be open. Forecasts are for 12 million-plus soon afterwards.

The airport's location is the key to this popularity. It is near the nexus of the M6, M62 and M56, the "time centre" of Britain where most of the country is within a 200-mile radius. A spur from the M56 goes right into the terminal buildings.

There are 20m people within one hour's drive and the airport sees its main catchment area running from Wolverhampton to the Scottish borders, although the motorways also ensure that it is quicker to get from most of Birmingham to Manchester than it is to reach Heathrow.

Annual freight throughput, already near £1bn-worth, should rise sharply when the new freight terminal, a privately financed development costing £7.5m, opens its first phase in September this year. Completion of the 6.5-hectare complex will be next February. It will have its own separate spur from the M56.

The strength of these markets has enabled Manchester to finance its own development and capital spending has been averaging £12m a year, with £18m and £6m going to improving in international departure and arrival areas by 1986.

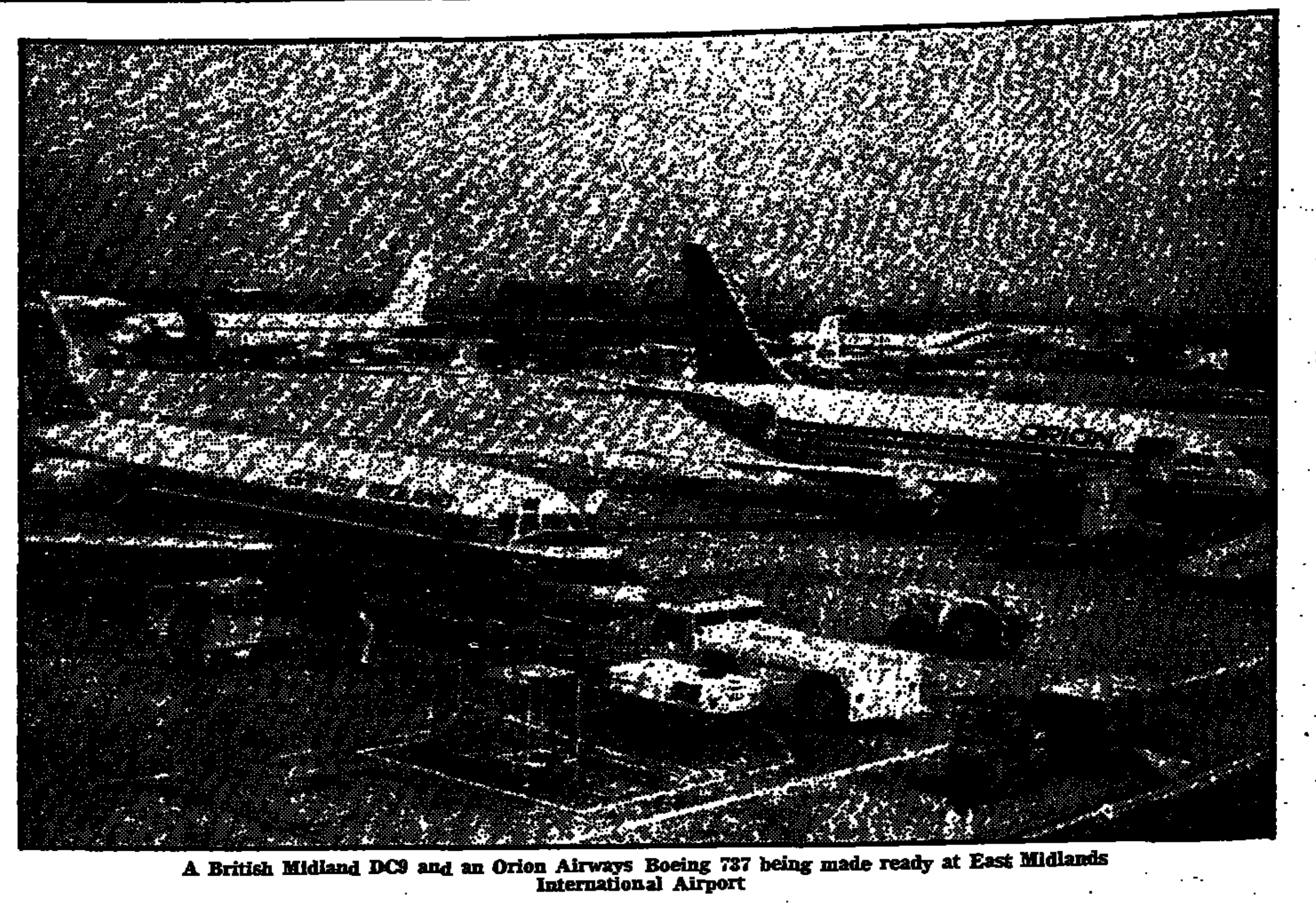
Many of those arriving passengers are expected to be American tourists. Ms Nevin says: "People want to see more of Britain." Traditionally, they started in London and then tried to take in Scotland and possibly the Lakes and the Dales.

Excited

U.S. agents are warming to the idea of starting in Manchester with the Lakes, Dales and Scotland. When we went to see them recently they were really very excited. "We think the new New York service will be very successful."

Mr Charnock says: "While international and charter flights have been growing sharply, the North of England had no identity overseas. We have restructured our promotion and have been developing our skill in explaining it, working closely with the Department of Trade and Industry and the British Overseas Trade Board.

If the Government decides later this year to encourage things further, it should mark the end of the age when, as Mr Charnock puts it, Manchester glared across the parapet at decision-makers in London and wondered why its case did not speak for itself. Manchester's realisation that it had to shed its own innocence will have had a lot to do with it.



A British Midland DC9 and an Orion Airways Boeing 737 being made ready at East Midlands International Airport

Hope of leisure market expansion

North West/ Yorkshire

IAN HAMILTON FAZEY

WHEN Liverpool Airport's new terminal building comes into use a year from now British Midland Airways is going to be £320 a day better off. That is how much the airline will save in aviation fuel by not having to taxi four kilometres each way between the airport's up-to-date runway and its antiquated buildings.

The saving is so high because British Midland runs four flights a day using F-27s, between Liverpool and London Heathrow. Work on the new £4m terminal started last month. It will open no less than 20 years after the runway that was supposed to secure the airport's future.

"It's rationalisation rather than development," says airport director Rod Rufus. "We were hamstrung by having a two-airfield configuration. Now we shall be getting much more aggressive in our marketing."

Liverpool's old airfield was designed before the jet age—and the present terminals were built for the traffic demands posed by aircraft like the De Havilland Rapide. The old field is now a giant taxiway to the airport's runway, which cannot even be seen from present spectator terraces.

Political squabbling was responsible for the airport's arrested growth, with Liverpool City Council struggling to afford running and development costs at a time when Merseyside's economic structure was starting to totter into its now-familiar state of near-collapse.

Merseyside County Council took over the airport in 1974 and looks like ensuring that it will just have a foothold on the future in time for the council's own abolition, when Merseyside's five district councils are expected to take over. Mr Rufus says: "We hope that the sword of Damocles has finally been removed after these 20 years."

But those hopes may well depend on the future attitude of the Conservative-controlled Wirral Borough Council, one of Merseyside's constituent districts. Urban traffic and the Mersey tunnels are no help in persuading Wirralians to use Liverpool Airport, even for domestic flights. Now that the Mid-Wirral motorway, the M53, has finally been linked to the M56 at Ellesmere Port, Manchester Airport is no further in terms of time and has many more services.

Whether privatisation might be the solution is open to doubt. That might need Government help with the airport's £3m deficit while a private operator chased new markets to get the revenue account into the black.

The key

Mr Rufus, however, agrees with the management of Manchester Airport that what happens there could hold the key to Liverpool's future—and that of Yorkshire and Humberside's regional airport, Leeds-Bradford.

"Both of them should be able to grow on our back in the same way that Gatwick grew on Heathrow's," says Dianne Nevin, Manchester's publicity chief.

Mr Rufus would like to see Manchester with eight scheduled flights a day to North America and a similar volume of other wide-bodied traffic to the Middle East and Far East. This would cause a spillover of domestic shorter-haul and—the key market—package holiday traffic to the smaller regional airports. "As long as the Government is not daft enough to develop Stansted, there is a chance of that happening," she says.

Leeds-Bradford, which last year increased its runway length to accommodate fully-laden large aircraft—previously they had to touch down en route and top up with fuel—could do very well out of such a prospect because it has 5m people in its regional catchment area. Liverpool has 2.5m.

Leeds-Bradford, run with a fair measure of fierce regional pride by the two city councils of Leeds and Bradford in partnership with the threatened West Yorkshire County Council, is presently undergoing a £23m expansion scheme that includes the runway extension and extensions to the terminal building, due for completion this spring.

Its present scheduled destinations include Paris, Amsterdam, Oslo, Dublin, Belfast, Glasgow, Edinburgh, Aberdeen and Cardiff. But the commercial future is seen in the leisure market. This summer 21 overseas destinations will be served, including one which few regional airports will be offering to holidaymakers—Bulgaria.

Liverpool puts its package holiday potential at 250,000 passengers a year but poor terminal facilities have not helped its marketing. However, location has brought some windfalls. The Mersey's microclimate produces more clear days than most other places so that Liverpool is an important diversion airfield. Since its runway was used to prove what is now standard automatic landing equipment, it is technically well up to coping.

Location has also seen the Royal Mail's use of Liverpool rise from eight tonnes of mail a night to nearly 50. The airport is near Britain's geographical centre and has therefore proved to be an ideal hub for moving first-class mail about the country.

Another windfall for Liverpool looks like being the decision of the Isle of Man Steam Packet Company to axe its ferry to the Mersey and operate jointly with Sealink from Heysham, 50 miles to the north. Manx Airlines, the island's only locally based carrier, hopes to pick up at least 13,000 extra passengers a year at a special rate of £20 each way.

This will also help the growth of Ronaldsway Airport on the island, which was used by 302,000 people last year. The fuel-efficient Shorts 330 and 360 aircraft—known locally as "flying bread vans"—have proved one of the keys in Manx Airlines' rapid progress into profit in only two years. It runs year-round scheduled services between the island and London Heathrow, Belfast, Blackpool, Liverpool, Manchester, Glasgow and Dublin.

Spacegrand

Fly-hire deals will be aimed at summer tourists who would normally have driven to Liverpool to catch the sea ferry. Other carriers to Ronaldsway—Avair, Spacegrand, Genair, Air Ecosse, and Loganair—are also likely to benefit.

Spacegrand, perhaps the least-known of these, is described proudly as "Blackpool's own airline" by the town's airport authorities. It intends to add Cardiff and Bristol to its present scheduled services between Blackpool, Ronaldsway, Belfast Harbour and Teesside.

Blackpool, however, is already noted as the busiest in the north west for light aviation, with 66,625 aircraft movements—an average approaching 200 a day—in 1983. That is likely to rise continuously: the airport is also the helicopter terminal for the developing Irish Sea gas fields, with at least 12 flights a day to the five existing rigs.

Airports to plan for growth

Birmingham/ East Midlands

ARTHUR SMITH

THE MIDLANDS as Britain's manufacturing heartland might have been hammered by recession, but its two main airports see nothing but growth in cargo and passenger traffic.

Birmingham International Airport claims record business after the opening less than 12 months ago of its new £62m terminal. Investment is pressing ahead with new cargo facilities linked with the creation of one of Britain's first freeports—a duty free zone intended to stimulate growth.

Similarly, East Midlands Airport on the back of rising traffic is modernising its terminal building and expanding cargo handling capacity.

Birmingham Airport, owned by the West Midlands County Council due to be axed in May 1986, has traded profitably since 1976-77. The cost of the recent £62m development involving interest charges and loan repayments of around £4m a year was expected to push the operation into a £2m net deficit in the current financial year.

Profitable

"But soaring passenger and airlines use of the new facilities will mean a deficit of only around £950,000," Mr Brian Summers, the commercial director, said. He forecasts a return to net profit within two to three years.

Passengers using the airport climbed 8.5 per cent last year to 1.75m—a big rise over the 1m level of just 10 years ago. The new buildings have facilities to cope with 3m passengers—the throughput forecast for the early 1990s. But the development has been planned to allow for easy expansion to handle up to 5m passengers.

Much of the passenger growth over the past decade has come from charter flights which account for around 55 per cent of airport business with operators such as Air Europe, Britannia, Orion, Dan-Air and Aviaco.

But Mr Summers maintains that real growth is now being achieved on scheduled services operated by airlines such as British Airways, British Midland Airways, Aer Lingus, Brymon NLM of Holland, and Birmingham Executive Airways.

Air France plans to return to Birmingham in the summer with daily services to Paris. BA is introducing a new daily service to Hanover, Birmingham Executive is extending flights to Stockholm and Stuttgart.

Air freight, cut by recession from 4,050 tonnes in 1980 to only 2,210 tonnes in 1982, more than recovered to 4,500 tonnes last year (1984). The old passenger terminal is being converted for use as a dedicated cargo area with some 13 aircraft stands.

Real growth

Work is expected to start in June to replace BA's present cargo shed with a much bigger *6,000 sq ft building* considered necessary to handle the projected growth in traffic. Building work is also likely to start at the same time on the first phase of development of the 12-acre freeport—a private sector venture.

East Midlands Airport, where charter business accounts for around two thirds of the passengers, expects to handle more than 1m people in the present financial year — approaching double the 662,000 of just a decade ago.

Mr Eric Dyer, the airport director, is confident the number of passengers will climb to 1.6m within the next five years—a projection which has prompted investment over the next two years to refurbish and modernise the terminal building.

The airport, a joint venture between the county councils of Nottingham, Leicester and Derby, plus Nottingham City Council, has proved a money spinner. An operating profit of around £3m in the last financial year meant that local ratepayers earned some £2m after interest and other charges. "Overall profits will be even better this year," Mr Dyer maintains.

Successful

The East Midlands has been particularly successful in generating air cargo and mail business, which in the nine months to the end of January this year rose by more than 65 per cent to 18,291 tonnes.

After the opening recently of a new 40,000 sq ft terminal shed, plans are now under consideration for a specialist cargo apron which would offer advantages over the present system where freight and passenger activities are mixed.

Development of cargo handling facilities continues apace. Some six to seven acres of new space will be brought into service over the next two to three years.

Newcastle plays vital role in economy

North East

MICHAEL DONNE

NEWCASTLE, the major international airport for the North East, plays a vital role in the communications and economic growth of that region.

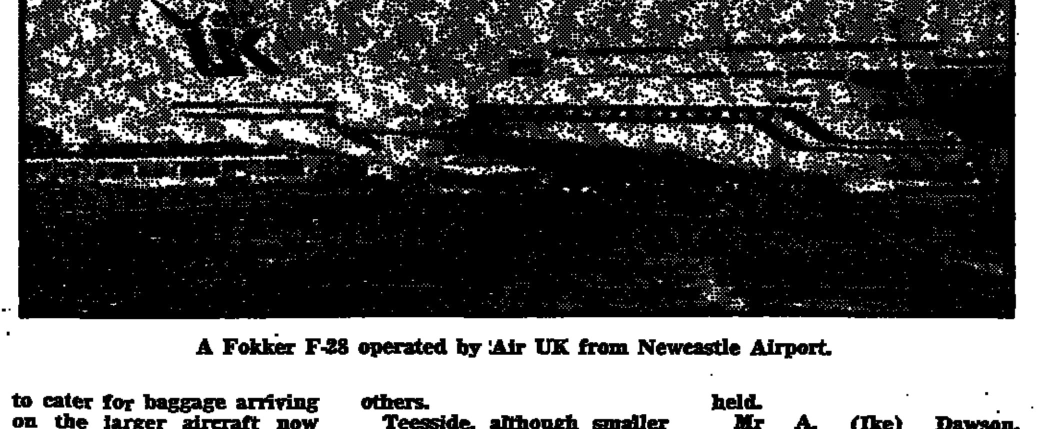
Celebrating its 50th anniversary this year, Newcastle began life as a grass runway with wooden huts, but is now a major operation, catering for UK domestic inter-city trunk line traffic and short-haul and long-haul international flights.

In 1984-85, the airport is expected to earn a surplus of £2.54m for the North East Regional Airport Committee, which runs the airport on behalf of the County Councils of Tyne and Wear, Northumberland and Durham.

For 1985-86, a surplus of close to £2m is indicated. To date, the constituent authorities running the airport have received some £4.25m from the venture, and a further £5.3m is to be distributed in 1985-86.

Mr Peter Smith, airport treasurer, says that "by 1986-87, in real terms, taking into account inflation, every penny invested by local authorities will have been repaid." Mr Smith adds that with the major developments, costing over £8m, including the improvements to the terminal building, now completed, "there is every reason to believe that the airport's profitability will continue."

More improvements are planned, however, to keep pace with traffic growth. These include the completion of a two-level pier with associated holding lounges, and the extension of the customs arrival hall to accept a new baggage reclaim unit, to cater for baggage arriving on the larger aircraft now using the airport. It is hoped that this work will be given the go-ahead for 1986.



A Fokker F-28 operated by Air UK from Newcastle Airport.

The airport committee has also approved the construction of a parallel taxi-way to facilitate the ground movements of aircraft. Although the need for this has been endorsed by the Civil Aviation Authority, government approval for the expenditure still has to be given.

The number of aircraft movements at the airport has risen from 4,300 in 1954 to almost 31,000 in 1984, while the number of passengers has risen over the same period from 43,000 to 1.24m last year.

Newcastle is served by close to 20 scheduled and charter operators, including several European international carriers from as far afield as Yugoslavia, Malta, Romania and Bulgaria, while Wardair, the long-haul airline flying to Canada, also uses the airport.

Countries served total 24, with scheduled services to Amsterdam, Bergen, Copenhagen, Dublin, Jersey, Paris, Stavanger and Oslo, and holiday charter flights to many others.

Teesside, although smaller than Newcastle (it has about 320,000 passengers a year), is nevertheless a focal point for traffic in the region, especially serving Heathrow with frequent DC-9 British Midland Airways services daily.

The majority of this traffic is business travel to London and inter-line (connecting) traffic with international flights at Heathrow, both of which are of prime importance for the Teesside area, especially at a time of high unemployment in the immediate area.

Easy access to Teesside is regarded locally as of especial significance for overall long-term regional development. The local Airport Committee is dedicated to developing that service to the community.

In May, the airport will open the first phase of expansion of the terminal building, a project it is expected will be completed by September.

This will greatly improve the international facilities, but the airport still has room for a Duty Free shop. However, so far, permission for such a shop has been withheld.

Mr A. (Ike) Dawson, director of the airport, says that there is money to be made from a Duty Free shop, and for a small airport such as Teesside, it would be a great help financially. On the other hand, the airport is denied the facility, because it does not yet have 100,000 foreign-going passengers a year (whereas some other regional airports with less international traffic, such as Cardiff, do have such a facility).

In the meantime, the airport is continuing to move steadily towards breaking even. The annual deficit has been reduced from £600,000 in 1981 to £170,000 projected for 1984-85, and the additional income from a Duty Free shop would be vital to the break-even drive.

The Government's moves towards easier air links into Europe, and a much more flexible domestic deregulation policy, are most welcome to Teesside. However, the airport authority would like to see international operators being permitted to operate to the airports of their choice in the UK much more freely.

"If there is a further high investment in the South-east (that is, at Heathrow and Gatwick), the propensity will be reinforced for international agreements to concentrate on the South-east airports rather than encourage growth of traffic to and from the regional sources of that traffic. Such concentration distorts the market," says Mr Dawson.

"Hence, we view with dismay the proposed huge injection of capital in the South-east in order to provide for an increase of 15m-25m passengers per annum in the UK airport system. Given the injection of perhaps half the sum proposed at Stansted, but distributed amongst the existing UK airports, we believe there could be a considerably greater capacity generated in the total UK airport system at less cost."

A healthy part of the airport's activity continues to be in inclusive tour holiday flight business. Despite the poor volume of business in the charter market (with some airlines even reducing fleets as a result of low forward bookings for the summer) the IT market at Teesside is holding up.

Overall, however, with the expected growth of air transport business for 1985, the airport officials believe that it will be a better year than many originally expected.

Mr Dawson says that "we have a healthy market, and look like seeing an increasing share of the traffic coming to the North-east area, of which we are geographically the focus."

Humberside is a much smaller airport, handling just over 100,000 passengers a year, but nevertheless providing a significant service for the local industrial and business community.

Arguments still rage about where the much needed expansion should take place

Waiting for the green light

South East

LYNTON McLAIN

THE SOUTH EAST of England has been the focus of the recent debate over the future development and direction of UK civil air transport for the next 20 years.

The centre of the debate, of course, has been the public inquiry into the British Airports Authority's proposals to build a fifth passenger terminal at Heathrow. Together with Gatwick and Luton, these airports make up most of the passenger capacity in the region serving London.

The South East also has a wide range of other, smaller but still important airports, which add to the range of facilities and capacity available to all types of business and general aviation aircraft users in the region. These will be affected by the large developments proposed for the region.

The debate

The debate was brought to a head with publication of the report by Mr Graham Eyre, QC, the inquiry inspector, last year. The report, unexpectedly, recommended expansion at both Heathrow and at Stansted, with Stansted's capacity limited to 15m passengers a year.

The inspector was unequivocal in his insistence that his recommendations for "complementary capacity contributions to be made by development at Heathrow and expansion at Stansted" would finally bring to an end the uncertainties which had been such a "deplorable" feature of post-war airports policy.

Support for the inspector's policy of complementary development at Stansted and at Heathrow has been sparse, so far. On Stansted, there has ben vigorous criticism by local groups of the inspector's recommendation for expansion.

There has also been powerful counter-support for expansion at Stansted. In particular, 16 local authorities in the south have joined forces "to press the Government to stand firm on airports and keep to its policy that expansion cannot be concentrated solely on Heathrow and Gatwick."

The group includes seven county councils— Buckinghamshire, Berkshire, Surrey, Hampshire, West Sussex, East Sussex and Kent — as well as three London boroughs and six district and borough councils. The group of 16 local authorities in the south regard Stansted as the "only way of solving the airport problems of the south east."

Development at Stansted "is now entirely unavoidable, and it will be impossible for Heathrow to meet the growth of the early to mid-1990s," the group said last month.

Several airlines already use Stansted as their operating base, including Air UK and Heavylift Cargo Airlines. The airport remains a major area of expansion for Air UK, with the introduction of new services and jet aircraft. The airline starts a new Stansted to Guernsey service at the end of March, using a Shorts 360 aircraft. On April 1, the airline starts a Stansted to Dusseldorf service and its Stansted to Amsterdam service using an F28 twin jet airliner.

Many of the smaller airports and aerodromes for business and light aviation use are in the counties in the "group of 16" and activity at these sites is likely to be affected one way or the other by the outcome of the Government's consideration of the inspectors report on Stansted and a fifth terminal at Heathrow.

Demand

A go-ahead for expansion at one or both of these major airport sites will help meet the forecast demand for air travel in the South East. At the same time, the go-ahead is likely to stimulate demand at some of the smaller airports as passengers demand more feeder services.

One of the most important current developments in the South East involves the plans to develop part of the Royal Aircraft Establishment airfield at Farnborough, Hampshire, for civil use.

The airfield and the RAE come under the Ministry of Defence, but tenders are to be invited "shortly" for the lease of a 50-acre area on the airfield for this purpose Mr John Lee, Parliamentary Under-secretary of State for Defence Procurement said in a written Commons' answer on March 1.

The 50-acre enclave is to be made available as a base for general aviation (27 acrcs) and for light industrial use (23 acres). The Government's aim is to make fuller and more cost-effective use of the RAE airfield and to alleviate the shortage of facilities for business aviation in the south east.

Leases of 125 years will be available for the industrial site, with 10-year leases available for general aviation use. Tenders have to be in by the end of May.

The aim is to allow up to 40 business aircraft, twin-engined with a maximum capacity of 20 passengers, to be based at Farnborough. The aircraft will be permitted to use the airfield between 8 am and 8 pm on weekdays, with no weekend use.

At nearby Blackbushe Airport, plans are in hand to build a large vehicle auction site following the acquisition of the airport by British Car Auctions last autumn for £7.3m. BCA formed a new company, Blackbushe Airport 85, to control and increase flying. The aim is to develop Blackbushe and to make it a leading centre for private and business aviation in the south.

Blackbushe, 320 ft above sea level, has a full Category 2 licence from the Civil Aviation Aupthority. It has a 1,200-metre tarmac runway and the owners claim noise nuisance is at a minimum since the airfield is surrounded by common and forestry land, with sparse population beneath the runway approaches.

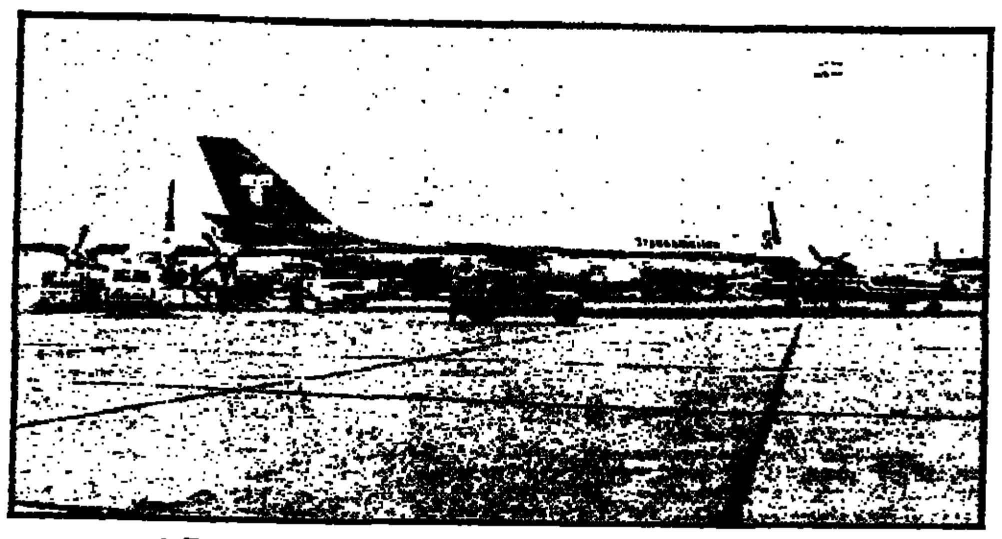
The site covers 350 acres and has been a civil airfield since 1947.

Biggin Hill Airport, one of several former Second World War fighter aircraft stations in Kent and Surrey, is well-established as a leading airport on the outskirts of London for business and private aircraft, and is steadily improving its facilities. The airport describes itself as "London's gateway" for these categories of aircraft.

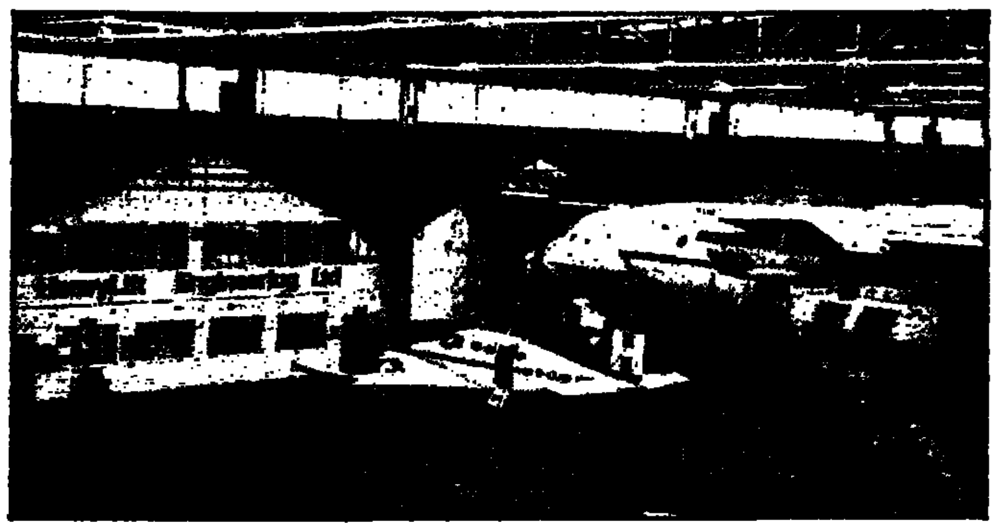
The airport forecasts that this year will be its busiest for general avation for some time. To meet demand and to enhance facilities, Biggin Hill Airport extended and refurbished its "executive terminal" last year, installed a new bulk fuel facility for 164,000 litres of underground storage and an electronic weather information system for pilots.

The airport is owned by the London Borough of Bromley and operated by a private company as a joint activity with the local authority. The site is 600 ft above sea level on a chalk ridge overlooking south London. The airport has two hard runways, one concrete and one asphalt, and three grass strips. The airport provides a base for more than 300 aircraft.

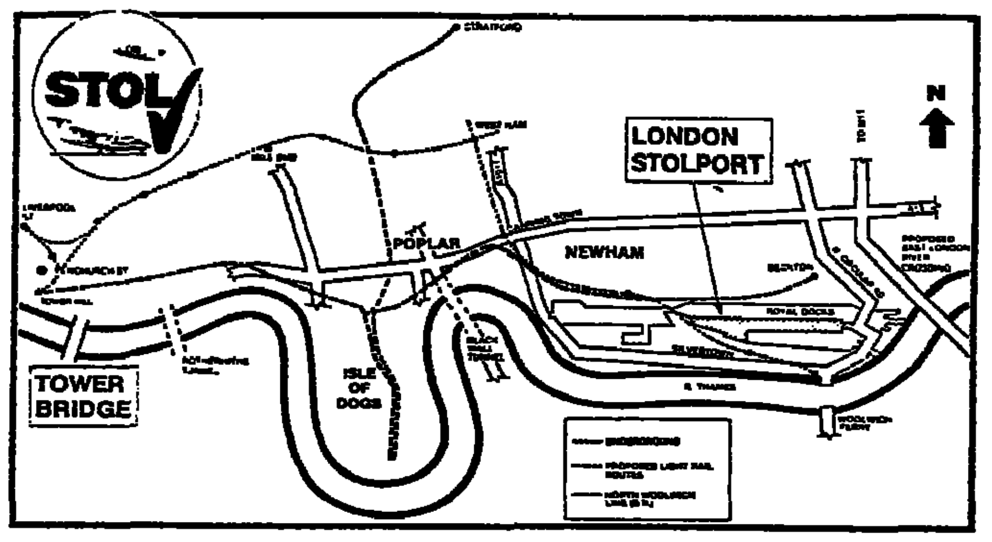
The airport management has plans to install radar, build a 72-room, four-star hotel on the airfield site and build four new aircraft hangars suitable for busines and executive aircraft, over the next five years. A second phase development will add a further 48 rooms to bring the final capacity to 120 bedrooms by the early 1990s.



A Transamerica Jumbo Jet and an Air UK Fokker F27 at Stansted



A giant Belfast heavy freighter of Heavy Lift Air Cargo being refurbished at the group's Southend Airport engineering base



Stolport would give access to the City

A £15M PLAN to develop a short take-off and landing airport (Stolport) in the docklands area of East London is now at a critical point.

A High Court judgment is expected any day on whether Mr Patrick Jenkin, the Environment Minister, should or should not re-open the public planning inquiry into such a development.

Environmental objectors have urged that he should on the basis of new evidence regarding the likely noise of such a Stolport, on a site in the now disused London docklands. Mr Jenkin has declined to do so, and the matter comes before the High Court tomorrow.

The plan is to build a runway in docklands, for use by small, light transport aircraft of the de Havilland Canada Dash Seven type, to serve a wide network of domestic and international short-haul routes.

The scheme, sponsored by John Mowlem and Company, the civil engineers, with the support of the regional airline, Brymon Airways, in effect would create a "regional airport" for the City of London.

It would serve UK domestic and international places not already served from Heathrow and Gatwick, or serve them more conveniently since the Stolport is much closer to the heart of the City than either of the two latter airports.

MICHAEL DONNE

Plymouth expands air services

South West

LYNTON McLAIN

THE WEST country (Devon and Cornwall) is served by five airports, at Plymouth, Penzance, Exeter, Newquay and the Scilly Isles, offering connections with the main airline hubs in London and several other cities.

Plymouth is one of the busiest of the west country regional airports with its own airline, Brymon Airways, based at the airport, and a new and smart passenger terminal designed to provide comfortable and easy movement of passengers to and from aircraft.

Brymon Airways using de Havilland Canada Dash 7 four-engined short take-off and landing aircraft provides a useful link with London with six flights a day from Plymouth to London Heathrow via the small airport at Newquay.

Rail/air service

Brymon Airways is planning to start a daily service to link Cork, Ireland, with Plymouth as part of its summer programme this year. The airline has services linking Cork and Plymouth and Jersey and Plymouth. The new daily schedule is to start on April 1 and will be of use to travellers using the rail-air link connecting London with Cork, via Brymon's service from Plymouth.

The fares for the service range from a single of £88 to a return of £132 from Monday to Friday, with a minimum stay of six days.

Brymon is to introduce a rail air service joining Cork to Birmingham, Bristol and London. The service links the British Rail Inter-City service through Plymouth Airport to Brymon's daily flight to Cork. The service includes transfer between the railway station and Plymouth Airport. The fares are Cork to London/Birmingham, £89 return, £50 single, and to Bristol £79 return and £45 single.

Mr John Jones, the commercial manager of Brymon described the fares as "very competitive with other transport methods and travel time is reduced significantly."

Brymon is to dedicate one aircraft to its Guernsey service this summer, with a Monday to Friday and a weekend service. The flight time is 40 minutes using a Twin Otter aircraft.

Plymouth City Airport is undergoing a £250,000 development to improve operational standards. The first stage, involving runway and approach lights has already been completed. Work has started on a new two-story office block for Brymon Airways.

Other work includes the provision of new electronic equipment including a more powerful navigation beacon, distance measuring equipment and electricity supply regulators.

"With the completion of this project, Plymouth City Airport has come of age and can be regarded as a modern regional airport," Mr John Humphrey, the airport manager said. "It means to Brymon Airways probably a 50 per cent reduction in the number of diversions which low cloud and visibility has meant in the past. For the traveller, it means less inconvenience and disruption to travel plans."

Penzance airport is a heliport, wholly-owned and operated by British Airways Helicopters.

The services started on September 1, 1964, and since then BA has carried approximately 1.25m passengers. There will be celebrations this year to mark the 21st year of the helicopter services. The services mainly link Penzance, on the far south-west corner of Cornwall, with St Mary's on the Scilly Isles.

British Airways uses a Sikorsky S-61NM helicopter, the only one of its kind. The helicopter has 32 seats compared with the normal seating of 26 for S-61 helicopters. The airline operates 12 return flights a day from Penzance to the Scillies. Normal flights take 20 minutes and tourist traffic accounts for most of the passengers.

British Airways carried 72,000 passengers on its Penzance-based helicopters in 1983-84, 2,000 more than in the previous year. The airline has forecast 77,000 passengers for the present financial year. This compares with the peak of 87,000 passengers carried in 1979-80.

The fares are £44 for a normal return from Penzance to St Mary's, with no conditions attached. A day return fare of £25 is also available. British Airways has applied to raise the fares this summer to £27 for a day return, with a normal peak single fare of £25 and £50 return in the peak season.

British Airways refuses to say if the service makes a profit. "The economics of the service are delicately balanced," is all the airline would say. "We are not prepared to discuss the profitability of the route."

Delicate

For 1985-86, British Airways expects the recent growth pattern to continue, with approximately a 7 per cent increase in passenger volume.

Exeter Airport is run by the British Airports International group. Mr Michael Halper, the BAI managing director, is trying to persuade regional airlines in Europe to take advantage of the EEC regional directive, published late in 1983. This law encouraged the development of air services from regional airports both within EEC member states and to regional airports in the UK.

Mr Halper is trying to persuade regional airlines in Europe to operate from the smaller European airports into BAI's three south of England airports at Exeter, Southampton and Southend.

British Airports International describes Exeter Airport as "the natural gateway from the continent of Europe to the magnificent tourist attractions of Devon and Cornwall." BAI is committed to the attraction of incoming tourism through Exeter.

New terminal would stimulate growth

Norwich

LYNTON McLAIN

NORWICH AIRPORT has a Vulcan bomber parked on the tarmac as an unexpected welcome attraction for passengers. The former Royal Air Force bomber is the star exhibit at the City of Norwich Aviation Museum, now being developed at the airport site.

What the airport does not have is a modern passenger terminal, or features of other, larger airports such as duty free shops. These appeal to many passengers and airlines, especially those serving the holiday charter market which Norwich would like to develop to expand the range of its traffic. This is dominated by executive travellers, especially from the offshore oil and gas industries off the east coast.

All this may be about to change, if plans for a passenger terminal, likely to cost up to £5m to be built on a greenfield site within the airfield limits come to fruition.

Two inquiries

The airport is operated by a joint committee with councillors from Norwich City Council and Norfolk County Council. Two public inquiries have preceded the present state of play with the plans for a new terminal. The first inquiry, in July 1978, found that the proposed site was unsuitable, mainly because it was considered to represent a visual intrusion in a predominantly rural area.

An alternative site was found and a second public inquiry was held in January 1981. The Secretary for the Environment approved the outline planning application for the new site. World economic difficulties hit air travel from 1979-80, traffic at Norwich fell from 201,819 passengers that year to 157,821 passengers in 1980-81 and in place of the small profit which the joint airport and industrial site had been making, there was a considerable loss.

The airport authorities considered that the time was not appropriate to embark on major developments at the airport. The fall in traffic had relieved the previous pressure on the existing terminal.

With the return to growth in air traffic, including at Norwich, outline planning permission has been sought for the new passenger terminal and a hearing later this month is expected to reach a decision, effectively giving the go-ahead for the new terminal, Mr Stephen Parsons, a former RAF group captain and now manager of Norwich Airport said.

Outline planning permission could be followed, possibly in the summer, by the approval of detailed plans for the terminal, with tenders possibly requested before the end of the year.

It is possible that the first work on the terminal could start in 1986 ready for operations late in 1987. This would probably mean that the first holiday charters out of the new terminal would not leave until 1988.

Norwich already has holiday tour flights, with Thomson Holidays offering holidays to Palma, Majorca, direct from Norwich Airport; Travelogue offering holiday flights to Portugal, and Anglia Holidays offering holidays direct to Holland, Denmark, Jersey and Guernsey, using the scheduled flights of Air UK.

Scheduled air services dominate flights from Norwich. Norwich airport is an operating centre for Air UK, the indeoendent airline formed in 1979 by British and Commonwealth Shipping from an amalgamation of Air Anglia, British Island Airways, BIA/Air Westward and Air Wales. Air UK uses Dutch Fokker F28 twin jets with 80 seats, 44 seat Fokker F27 Friendships, 50 seat Handley Page Heralds, Short 360s and 330s and Brazilian Embraer Bandeirante aircraft.

The airline is the only scheduled carrier to operate out of Norwich, after the withdrawal of services by Genair, a small, commuter, and feeder link airline, last year.

Scheduled services now link Norwich with Aberdeen, Amsterdam, Edinburgh, Esbjerg via Humberside, Heathrow, London and Teesside. The Humberside, Aberdeen and Amsterdam services are four times daily.

From May 1, a new airline to Norwich is to start services, when Holland Airlines is to start a twice weekly service to Rotterdam. May 1 is also the date when Norwich Airport is to hold a seminar at Norwich City Hall for companies and people involved in the air travel industry. "The aim is to promote air travel and holidays to and from Norwich," Mr Parsons said.

The airport management hopes that the timing of the seminar, just when holiday tour companies are planning their holidays and services for 1986, will enable holiday companies to consider including Norwich in their lists of departure points for the 1986 summer season.

The airport lost about 20 per cent of its business when Genair ceased operating its feeder services last summer. Air UK picked up the Norwich to Heathrow route, although the link with Gatwick airport is still available.

Norwich Airport handled 195,526 passengers in 1983-84. This compares with 171,826 passengers in the previous year and compares with the 4,295 passengers in 1968-69, the first year of commercial operations at the former RAF station which became Norwich Airport. The airport expects to have handled about 195,000 passengers again in the current financial year to the end of March.

The inclusive tour holiday business out of Norwich could have doubled in 1985-86, Mr Parsons said, but Thomson Holidays pulled out of its earlier plans for holiday flights to Malaga. This was thought to be largely because of the unfavourable reaction of holidaymakers to Spain as a holiday destination this summer.

Purpose-built

The new passenger terminal, if it does finally get this go ahead, will be designed to handle 450,000 passengers a year and could be operational any time from late 1987 to June 1988, according to Mr Parsons.

He is clearly looking forward to managing a purpose-built terminal, the newest in the UK, but is concerned that customs and excise regulations will prevent the airport having its own duty free shop, at least for the time being.

Regulations call for airports to have a minimum of 100,000 passengers outbound for foreign destinations each year before they are permitted to have a duty free shop. Up to the end of September last year, Norwich Airport handled 42,000 passengers going abroad.

The airport has its own bonded store but would welcome the opportunity to increase its income through a potentially lucrative duty free shop. The new terminal building will have space built-in to accommodate a duty free area to be built when the volume of passengers going abroad reaches the required level.

By that time, Norwich Airport will be well-established as an up-to-date regional airport of to serve in style the people of East Anglia and to provide continuing links with the oil and gas industries offshore.

Inside the traffic control tower at Norwich Airport.

Small airliners change the pattern

Air services

MICHAEL DONNE

THE PATTERN of air services to, from and throughout the UK has been changing over recent years, and this trend seems likely to accelerate, as a result of both the forthcoming partial deregulation of UK domestic airline operations, and a growing interest, especially among businessmen, for more short-haul domestic and international air services from local and regional airports.

One of the principal catalysts for this change has been the emergence in recent years of a new generation of small, economic airliners, sometimes seating no more than ten passengers a time, but generally in the 20-30 seater category, such as the Shorts 330 and slightly larger 360, which have made it possible for many operators to launch new, profitable short-haul domestic and international operations.

The significance of this development should not be underestimated. For much of the post-war period, the history of UK civil aviation has been littered with the wreckage of plans for new air services, that foundered because the airlines involved did not have aircraft of the appropriate size.

They started operations with aircraft far too large for the traffic densities available, with the result that they lost money, and went out of business. More significantly, their experiences soured and discouraged them — and others — from starting regional air services.

The emergence of the new generation of small, cost-effective turbo-propeller airliners has substantially changed the situation. Although many short-haul air travellers prefer to fly in jets, the fact remains that turbo-propeller airliners are not only cheaper to operate, but also because of their generally smaller size they are able to use airports not able to accommodate bigger jet aircraft.

Moreover, their quieter noise levels make them more acceptable neighbours for surrounding noise conscious communities.

The significance of this development is illustrated by the U.S. experience, where many of the small, local service, commuter or regional airline operators use the twin-turbo-prop airliners of the Brazilian Embraer Bandeirante, British Aerospace 748, and Jetstream 31, de Havilland Canada Dash Seven, Shorts 330 and 360 and other types.

The emergence of new types of twin turbo-propeller aircraft, such as the Saab-Fairchild 340, the de Havilland Canada Dash Eight, and the Brazilian Embraer Brasilia, will help to develop this trend even further, while other forthcoming, but larger, new turbo-props such as the Franco-Italian ATR-42, the British Aerospace Advanced Turbo-prop (ATP) and the Fokker F-50 will consolidate the situation both in the U.S. and elsewhere, especially in Western Europe and the UK.

Effect

One direct effect of this availability of smaller, more economic aircraft has been to permit the development of more airlines, often with small fleets, but using the high work capacities (and their social acceptability through their quieter engines) to promote air services between many communities that would not otherwise have been able to have them. Airlines such as Birmingham Executive Airways, Brymon Airways, Spacegrand, Manx Airlines, Loganair, Air Ecosse, have developed rapidly in the recent past, but even so, there are still many opportunities for more airlines.

The larger airlines, too, such as British Midland, have demonstrated on the denser trunk routes that competition can play a significant role in stimulating traffic.

As Mr Michael Bishop, chairman of British Midland, points out: "As a result of aggressive marketing and competition, there has been a surprising resurgence and development of domestic air travel.

"We now know there was a large, untapped market on domestic air traffic routes — a fact we had been suggesting to the Civil Aviation Authority since 1979 — a fact which our competitors had always denied existed."

Since BMA introduced services to Glasgow in 1982 and to Edinburgh in 1983, the total market for all airlines between London and Scotland has grown by well over 25 per cent.

But while there has been growth on the major domestic trunk routes, on the cross-country, intra-regional routes it has been much slower. Truly "commuter" style or local service airline operations in the UK have been held back by several factors, one being the recent economic recession itself.

Another factor has been the undeniable influence of the dense surface transport system, both in terms of roads and Inter-City rail services, which have been developed substantially in recent years. To this day, the temptation to use the motor car in the UK for any journey of up to, say, 100-150 miles is very strong, while beyond that distance the Inter-City or other rail services also offer strong competition.

For longer distances, many business travellers would be interested in air services at reasonable rates, but they do not exist between many major cities.

There are now signs of change in this situation. Many UK business travellers, having experienced the U.S. local air services pattern, and found it convenient, would like to see something similar developing in the UK.

One result of this is that local Chambers of Commerce and other bodies are now more encouraging in their response to actual and potential operators of such services.

Networks

What many in UK civil aviation would like to see is the development of major "hub and spoke" air systems, with large networks of routes linking not only many smaller regional points together but also linking them with bigger, international, regional airports such as Manchester, Birmingham, Glasgow, Leeds-Bradford and others.

Generating systems of this nature, however, requires not only substantial cash, but also a good measure of entrepreneurial flair. The major airlines tend not to want to become involved in such operations, preferring to leave them to smaller operators whilst they concentrate on trunk route operations.

In the past, the lack of UK activity in this field has also been partly due to the comparatively inflexible licensing system, which is only now in the process of changing.

The Civil Aviation Authority, over the past two to three years, has shown a significant interest in promoting increased domestic air transport competition, and the proposed partial deregulation of many UK domestic air routes (with concomitant deregulation of air fares by domestic airlines) should do much to help.

Because of various airline and other objections or representations, the hearing on the deregulation of UK domestic air routes is to be heard by the CAA starting on May 28, with the hearing on the deregulation of domestic air fares starting about a week later.

In the proposed liberalisation, services to Heathrow and Gatwick are excluded (because of fears of congestion at those two airports from a plethora of new air services), as are the Channel Islands, because of special relationships that have to be considered.

Although those restrictions (and others may emerge as a result of the public hearing) mean that much of the volume of internal UK air travel will be outside the scope of the proposed deregulation, some benefits will be bound to accrue. The experiment will last for two years, before being made permanent if it is successful. Stansted, in Essex, which may well be significantly expanded under the Government's long-awaited plans for future airports development, is included in the projected liberalisation plan, as is Luton, the major charter airport north of London.

Air services which cannot get into Heathrow and Gatwick, therefore, will be able to make much greater use of both Stansted and Luton, but whether this will suffice to encourage more regional airline operations remains to be seen.

Another development which could help to generate some new routes and services is the forthcoming distribution of cash from British Airways, under the regional routes promotion scheme outlined in last year's White Paper on air transport development.

Under this scheme, BA is ready to pay sums of up to £450,000 a time to help the development of some 15 routes out of regional airports. The idea has attracted considerable interest.

A substantial number of applications for routes that could qualify for such largesse is likely. The Department of Transport has asked the CAA for advice on the scheme, since it alone has the expertise in route licensing matters to deal with such problems.

One of the major complaints levelled by regional airport administrations is that the UK Government and the Civil Aviation Authority do not do enough to promote the interests of regional airports with foreign governments.

In some cases there may be some truth in that, for the UK has tended, especially recently, to be protective of British Airways' interests, in the run-up to privatisation, where additional services sought by foreign carriers to regional airports are concerned.

It is also fair to point out that many countries, especially on mainland Europe, jealously guard their air transport sovereignties, and the positions of their flag carriers, and have been reluctant to accept that a major expansion of short-haul international air services can stimulate traffic and trade.

Even today, the UK Government (and many UK airlines) are finding it difficult to win the approval of foreign governments for increased penetration of their markets by UK operators from regional points, at cheaper fares.

A breakthrough was achieved with last year's "Open Skies" agreement between the UK and the Netherlands, and the less far-reaching but still significant agreement with West Germany. Discussions now planned with other major West European countries throughout the rest of this year will, it is hoped, result in at least some greater measure of freedom for UK airlines to operate wherever and whenever they choose, although the total deregulation of West European air transport is still a long way off.

Where it has been possible for them to do so, some West European airport authorities have been quick to seize the opportunities of promoting themselves at the expense of UK airports. Schiphol (Amsterdam) for example, has stressed strongly the undeniable benefits to UK travellers of flying to Amsterdam to make connections with long-distance flights, rather than fly to Heathrow or Gatwick. Schiphol has thus been claimed that it is already in effect "London's Third Airport." The increased development of at least some of the major regional airports, such as Manchester, Glasgow and Birmingham, as "hubs" with long-haul international air services as major features of their operations, as well as many new short-haul routes, could do much to reverse that trend. If Manchester, for example, had many more long-haul international air services, much of the force of the Schiphol argument would disappear.

Encouragement

The Manchester International Airport Authority has been well aware of that situation for some time, and has stepped up its own commercial campaign to promote itself with overseas carriers, and other regional airports are also now following suit.

What they, and other regional airport authorities require, is much stronger UK Government encouragement for those efforts, with permission freely given to the foreign carriers to fly in regardless of the competitive impact on British Airways.

The latter has always argued that it is not afraid of competition: the regional airports say that it should now demonstrate the fact by accepting it.

One factor that may yet significantly influence this situation is the emergence of the "big twin" type of airliner, capable of flying long distances but with much smaller payloads than customarily required to make a Jumbo jet economic. The extended-range Boeing 767 and the long-range version of the Airbus A-310, for example, could make long-haul international operations out of regional airports far more economic than could Jumbo jets.

Given that traffic densities on such routes from regional centres are likely for some time to come to be less than out of either Heathrow or Gatwick, airlines and regional airports might usefully consider employing such smaller aircraft.

For the immediate future, the traffic development pattern at regional airports is likely to be dominated by short-haul internal UK and international operations. Much of this in turn will be dominated by the holiday charter market, but business traffic will increase as the recession fades and economic prosperity returns, albeit slowly in many instances, to the regions.

As Mr Bishop of BMA has argued: "What is needed is a number of new, cost-effective airlines which can work to develop new routes, ideas, and concepts, and the net result of that will be a really efficient industry which will have tremendous benefits to the economy of the country, as well as fuel the growth of the airline business itself. I believe this can be done profitably, and without there being a string of liquidations and bankruptcies.

"There is a need to give new opportunities to the private-sector airlines, so that they can develop strongly, rather than giving all the privileges and preferences to the state airline. The Government has got to work hard to see that happens."

Strong growth expected

CONTINUED FROM PAGE 1

UK airport spending on London the regions are being denied cash and other resources for their own expansion.

Moreover, it is claimed, the continued emphasis in air transport on London and the South-East exacerbates the existing overall North-South economic divide, perpetuating the economic problems of the North by encouraging international air traffic to use London rather than think of going elsewhere.

It is pointed out that already many Northern air travellers are obliged to fly to London to make long-haul (and even many European short-haul) connections, that airlines could be and should be encouraged to provide from regional airports.

While it is undeniable that the regional airports have a major role to play in the future development of UK air transport, the fact is that all airports, no matter wherever located, will need to be expanded to cope with the expected growth.

All airports, whether in London and the South-East, or in the regions, will need to spend more cash to meet the inevitable demand for improved facilities.

Within the overall expansion, inevitably the bulk of it will be focused on London and the South-East. London is, after all, the seat of central government, the primary base for tourism (even if many tourists also go on to other places in the UK) and the centre for commerce.

For these reasons alone it already attracts the overwhelming share of international air traffic to and from the UK, and no amount of attempted enforced diversion of such traffic to the regions is likely to fundamentally alter that situation.

This is not the result of any conspiracy by any authorities, government or otherwise, to deny the regions their fair share of air traffic growth: it is a fundamental fact of economic life.

Recognition

Any attempts to enforce diversion of internationally-originating traffic from London to the regions would be bound to fail: passengers thus denied the destination of their choice would opt for other continental cities, such as Frankfurt, Paris or Amsterdam. The regions would not benefit, and the UK economy would suffer.

This is no way denigrates the role the regional airports have to play, both now and in the future, in the overall expansion of UK air travel.

The regional airports, and especially those associated with the Consortium for the North, must recognise that their most likely chances of achieving greater recognition — and hopefully thereby more liberal government financing and route-licensing policies — lie not in seeking either a halt to, or the downgrading of, expansion of airport facilities in the South-East, but in promoting the concomitant growth of their own airports alongside those of the South-East.

The vigorous commercial promotion of themselves and their facilities both at home and overseas — in association with commerce and industry in the region itself — can do much to help their expansion, which the Manchester and Birmingham International Airport Authorities are already amply demonstrating.

The Government has moved to help the situation by agreeing on the partial liberalisation of UK domestic air services, to become effective later this year when airline and other objections and representations have all been considered. But it is arguable that, by excluding Heathrow and Gatwick from that liberalisation, and making special exceptions of other such as the Channel Isles, the deregulation proposals are not likely to achieve as much as they perhaps could if total deregulation were to be permitted.

At the same time, the Government could be more liberal in its attitudes towards the financing of regional airports by permitting local authorities to spend more on their airports without having those outlays regarded as part of all local authority spending, and thus subject to restraint, as at present.

For its own part, the Government argues thta many regional airports appear to have lost sight of the underlying truth of al air transport—that an airport in any region exists solely to serve the economic needs of that region, not the other way round.

Manchester International Airport

While the existence of an airport can stimulate air travel, simply by being there, the primary generator of traffic is the fundamental economic health of the region itself.

Airlines, British or foreign, are not philanthropic organisations: they exist to make money. They will only introduce air services to and from regional centres if they can see immediate profits in doing so, or at least initially no likelihood of heavy losses and with the eventual prospect of some profitability.

Much of the future of the regional airports will depend upon the rate at which the recession itself ends, and how commerce and industry in the regions responds to that situation. There are already signs that some airlines are alert to the potential of the regional airports—British Airways, for example, is substantially expanding its activities at Manchester.

This situation could be helped along, however, if the Government itself were to adopt some more liberal route licensing policies, especially for foreign airlines wishing to use the regional airports.

The long-standing protectionist attitude adopted towards the flag carrier, British Airways, which has already hindered the development of some new long-haul regional air services by foreign airlines, could be amended, and at least some such operations permitted, if only on an experimental basis.

The Government is considering its whole attitude towards airport development for the rest of this century, taking in not only the proposed expansion of Heathrow and Gatwick, but also the development of the Scottish Lowlands Airports (including the future of Prestwick), and the development of regional airports as a whole.

Its proposals, probably in the form of a White Paper, are likely later this spring or early summer. It is to be hoped that within them will be the seeds of longer-term profitable expansion for all airports, whether in the regions or in London and the South-East.

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